



DIVIDED WE FALL:

**The Tar Sands vs.
The Rest of Canada**

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The Tar Sands vs. The Rest of Canada

by Gillian McEachern – Forest Ethics,
Matt Price – Environmental Defence, and
Jacques Lacroix – Équiterre.

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Environmental Defence Canada | 317 Adelaide Street West, Suite 705, Toronto, Ontario,
M5V 1P9 | tel 416.323.9521 | fax 416.323.9301 | toll-free 1-877-399-2333

FORESTETHICS exists to protect Endangered Forests, wild places, wildlife, and human wellbeing. Our innovative, inspiring and effective campaigns challenge corporations and catalyze environmental leadership in industry, governments and communities. Our work creates solutions that last for generations to come and emphasizes addressing climate change, which compromises all of our efforts if left unchecked.

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ForestEthics | 215 Spadina Avenue, Suite 417, Toronto, Ontario, M5T 2C7
tel 416.597.1904 | fax 416.644.0116

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Quote on back cover: **Remarks by President Obama at the Edison Electric Vehicle Technical Center, Pomona, California, March 19, 2009**

The Road to Copenhagen

A change of direction on climate policy is in the works in Ottawa, prompted by developments in Washington, DC. The Government of Canada is now designing new rules for carbon polluters. Given a legacy of stalling on tackling global warming, this could be good news.

But there are reports that the government is seeking to protect the tar sands industry from having to make serious emission cuts.¹ The tar sands is the fastest-growing source of greenhouse gas emissions in Canada. Special treatment for the tar sands industry could come at the expense of the industrial sectors that are the economic backbone of provinces such as Ontario and Québec – sectors whose emissions are on the decline. The economic repercussions of a biased system design could hurt non-petroleum industries in Canada, and drive a damaging wedge between the provinces.

In December of this year, international global warming negotiations will conclude in Copenhagen. Recently, 2,000 climate scientists met to compile their latest findings and warned that humanity could soon be locked into irreversible climate shifts and that societies are highly vulnerable to even modest levels of climate change. Rapid global and regional action is required to avoid “dangerous climate change” and “inaction is inexcusable,” summarized the scientists.²

In talks leading up to Copenhagen, the Government of Canada has embarrassed its citizens by throwing up roadblocks to progress. At last year’s climate conference in Poland, Canada received the “Colossal Fossil Award” from an international network of conservation groups for being the single most obstructive country at the talks.³

The Canadian government’s actions on the world stage are reflective of its failure to tackle global warming. In 2007, Canada’s greenhouse gas emis-

sions were 26 percent above 1990 levels,⁴ making it unlikely that it will live up to commitments it made when it ratified the Kyoto Protocol.

The election of President Obama, however, has changed the game. Canada can no longer hide behind U.S. inaction. The fact that the U.S. is now moving to tackle global warming will force Canada to move given the integration of the two economies.

Like the United States, Canada will eventually adopt a “hard cap,” or absolute limit, on greenhouse gas emissions from major polluters. Logically, such a system would be designed so that each sector of the economy is responsible for its fair share of reducing emissions.

If the Canadian government protects the tar sands industry from emission cuts through special treatment, it could not only compromise overall efforts to reduce emissions, but also force industrial sectors that are important to provinces such as Ontario and Québec to work even harder to make room for tar sands emissions to grow. Many of these sectors – aluminium, pulp and paper, cement – have already seen reductions in their overall greenhouse gas emissions either through restructuring forced by the current economic downturn, or through technological turnover that made them much more efficient and less polluting.

This is not the kind of position that Canada can sell in Copenhagen or to the Canadian people. Provinces, businesses, labour leaders, and citizens need to engage in the design of a national cap and trade system to ensure it is fair and doesn’t favour the tar sands at the expense of other parts of the country.



The tar sands are the fastest growing source of global warming emissions in Canada.

Photo : S. JOCZ

A Hard Cap for Canada

Obama changes the game

The day after the election of Barack Obama to the office of the President of the United States, the Canadian government began to pitch a North American pact on climate change.⁵

The speed of the offer is not surprising when taken in its entirety. Prime Minister Harper was proposing to strike a climate *and energy* pact, with an emphasis on the tar sands providing the U.S. with “energy security” and therefore needing protection from emissions cuts.⁶

President Obama has pledged to implement a cap and trade system to reduce greenhouse gas emissions from industrial polluters in the United States. In essence, such a system sets a firm limit on the amount of global warming pollution, and this limit becomes stronger over time, challenging industry actors to meet or beat it. Those that beat it earn credits that they can sell to those that don’t meet it.

The United States is also considering tariffs on imports from countries that don’t have domestic carbon reduction policies. This reduces the risk of companies relocating to avoid pollution limits. U.S. Energy Secretary Steven Chu has said a carbon tariff may be necessary to “level the playing field.”⁷ Draft U.S. climate legislation released in May 2009 outlines an “International Reserve Allowance Program” whereby importers may have to buy allowances for products from countries without greenhouse gas reductions at least as stringent as the United States.⁸

The United States will not accept weaker regulation of competing Canadian industry located a quick hop across the border. The integration of our economy with the United States means that Canada will be forced to limit industrial emissions to keep pace with U.S. action on the issue.

While the Canadian government now appears to accept it will have to follow the United States on implementing a cap and trade system,⁹ the Alberta and Saskatchewan governments are lobbying hard for special treatment – weaker rules for them – in a national system, under the guise of “regional sensibility.”¹⁰ Given the federal government’s own proposal to the United States for protection for tar sands emissions, there is a real risk of a system coming out of Ottawa that is tilted against the rest of Canada’s economic base, especially in Ontario and Québec.

“Addressing climate change isn’t just the right thing to do for the planet, it is also the right thing to do economically. This is a win-win situation where we can reduce our greenhouse gas emissions, create jobs and build export potential not seen since the industrial revolution.”

— CANADIAN LABOUR CONGRESS¹¹



The federal government is missing in action on regulating an end to tar sands destruction.

Photo : LOUIS HELBIG, www.egamiimage.ca

Canada on Climate – Loopholes “R” Us

So far, the centerpiece of Canada's climate policy has been the proposal of so-called “intensity” targets for major polluters in industrial sectors such as oil and gas, manufacturing, mining, aluminium and pulp and paper. This approach requires companies to emit less pollution per unit of production, but allows overall emissions to rise as production increases, thereby failing to achieve the absolute emissions reductions needed to address global warming. Moreover, the Canadian proposal adds further loopholes, such as payments into a technology fund in lieu of reducing emissions and the use of unlimited amounts of “offsets” – paying others to reduce emissions. This thoroughly discredited system¹² has never been implemented, and now may never be implemented,¹³ meaning that Canada's industrial polluters have been operating unchecked by Ottawa since the ratification of Kyoto over six years ago.

Provinces Step into Breach

Given that environmental regulation is shared federal-provincial jurisdiction in Canada, some provinces have responded to Ottawa's inaction by pursuing their own cap and trade systems.

Ontario, Quebec, BC, and Manitoba – accounting for about three quarters of Canada's population and GDP – joined together with several U.S. states in the Western Climate Initiative (WCI), an effort to establish a regional cap and trade system administered by the states and provinces. At present, the WCI plans to begin its cap and trade system in 2012.¹⁴

Alberta has also pursued its own climate policy, although its motivation is quite different – to bolster its case for avoiding federal regulations.¹⁵ Alberta's climate regulations are even weaker than the federal proposal outlined above.¹⁶ Saskatchewan recently floated its own loophole-ridden climate regulations in a desperate effort to head off federal ones.¹⁷

Although provinces such as Ontario and Québec have agreed to implement a joint cap and trade system as early as January 1, 2010, the future of provincial regulation of major polluters is unclear. The fact that the United States is moving toward federal regulation could pre-empt the WCI, thereby leaving Canadian participants looking to Ottawa for leadership. Should Ottawa favour a national system tilted toward the benefit of the tar sands, years of hard work by the WCI provinces could go up in smoke.

A Hard Cap Demands Hard Answers

With a loophole-ridden proposal for the regulation of major climate polluters, Canada has so far put off asking and answering the hard questions.

One of the most difficult questions is: Who gets to pollute, and how much? Once the atmosphere stops being a free dump for carbon, polluters must either clean up or compete with one another for the limited right to pollute. In the short term, those rights to pollute will be jealously guarded by industry sectors and their supporters in government, even though the transition to a green economy is inevitable over the long term.

Special treatment for tar sands emissions would skew the system and lead to unfair impacts on others, particularly the Ontario and Québec manufacturing and industrial sectors that make up the bulk of remaining industrial emissions in Canada and whose emissions have already declined since 1990.

“Price signals are an important tool for spurring business investment in new technologies and for changing consumer behaviour, but they must be applied consistently across the economy if they are to be effective.”

— DAVID STEWART-PATTERSON, Executive Vice President, Canadian Council of Chief Executives¹⁸

Will Canada's Cap be Fair?

The Tar Sands Make our Politicians Weak

Like political kryptonite, the tar sands make Canadian politicians weak. The tar sands are not yet Canada's largest source of greenhouse gas emissions, but they are the fastest growing source and therefore the hardest to get under control with climate legislation.

Emissions from the tar sands were between 35 and 40 million tonnes in 2007.¹⁹ As the price of oil recovers, planned expansion of tar sands operations would cause emissions to explode over the next decade. The federal government has estimated that business-as-usual would see tar sands emissions rise to 108 million tonnes by 2020.²⁰

Some justify the failure of politicians to stem tar sands emissions based on economic benefits, but this bears closer examination. According to the Canadian government, between 1990 and 2006 emissions from Canada's fossil fuel industry were responsible for 42 per cent of emissions growth. Meanwhile, the sector contributed 4 percent to the growth in Canadian GDP during the same time period. In contrast, the other heavy industry and manufacturing sectors reduced overall emissions and contributed 18 per cent to the growth in Canada's GDP.²¹ A negative economic impact of the tar sands that does not receive enough attention is the fact that tar sands growth has turned Canada's currency into a "petrodollar," or one that closely matches the price of oil. When oil is high, the Canadian dollar is high, and Canadian exports become more expensive worldwide, hurting Canadian companies outside the oil sector. The Desjardins group and others have characterized this situation as a form of "Dutch disease," a term coined when the Netherlands' manufacturing sector suffered following the discovery of large natural gas deposits in the 1960's.²²

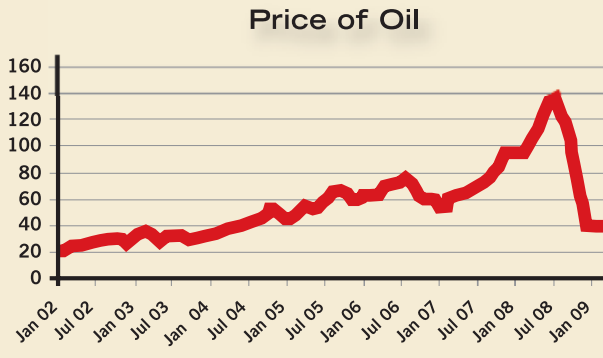
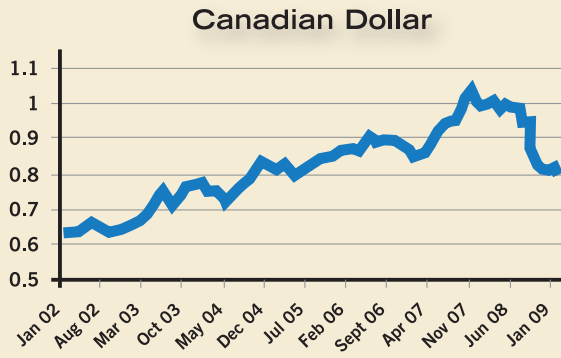


Stelco Steel Mill, Hamilton, Ontario. The manufacturing sector accounted for 18 percent of the growth of Canada's GDP between 1990 and 2006 while reducing emissions. In contrast, the fossil fuel industry contributed 4 per cent to our GDP and 42 per cent of emissions growth.

Photo: istockphoto.com

PETRO-LOONIE HITS CANADIAN MANUFACTURING

With increased oil production, Canada's dollar tracks closely with the price of oil. The Ontario government estimates that a 5 cent drop in the dollar could boost its GDP by up to a percentage point – or about \$6 billion.²³



Skewing the East?

Now that an absolute limit on industrial emissions in Canada is inevitable because of emerging U.S. policies, we will need to deal with the critical questions of how this system gets designed. The answers to those questions will shape Canada's future economy.

If Canada's politicians seek special treatment for tar sands emissions, this will collide with the fact that a real cap sets up a "zero-sum" situation for industrial emissions – that special treatment for one under a hard cap means penalizing another in order to maintain the cap.

Tar sands emissions could be given special treatment in a federal cap and trade system through any number of the following mechanisms: setting a weaker cap for that sector in either the amount or pace of cuts; giving away pollution permits; creating loopholes for specific emissions; or using offsets or technology funds to avoid actual cuts.

The net result, though, would be that tar sands emissions would fall less rapidly than other sectors – or even rise – thereby forcing other industry sectors to work even harder so that overall emissions remain within the set limits.

If the tar sands sector was responsible for its fair share of emissions cuts according to what scientists say is needed to protect the climate – 25 per cent below the 1990 level at a minimum – the sector's allowable emissions would be 12 million tonnes in 2020.²⁴ Recalling from above that the federal government estimates that business as usual emissions in the tar sands would hit 108 million tonnes in 2020, the sector would exceed its limit by 96 million tonnes, or nearly 1,000 percent.

This translates into an *additional* 96 million tonnes of emissions cuts needed from other industrial actors in Canada. This is roughly equivalent to:

- Ontario's entire provincial goal of reducing emissions by 99 million tonnes by 2020,²⁵ or
- 20 percent more than the province of Québec's entire emissions of 81.7 million tonnes in 2006.²⁶

After Alberta, Ontario and Québec are the second and third largest greenhouse gas emitters in Canada. If the tar sands are given special treatment under a cap and trade system, then industries in these provinces in particular would need to pick up the slack.



Pulp and paper mill in Saguenay, Québec. Special treatment for the tar sands would tilt a cap and trade system against the manufacturing sectors in Quebec and Ontario.

Photo: istockphoto.com

A Fair System

A fair cap and trade system in Canada is one where each economic sector and region is responsible for its fair share of emissions cuts.

We recommend designing a system to be in place by the end of 2010, with the following characteristics:

- 1. It promotes the creation of green Canadian industries and a level playing field for trade;*
- 2. The cap on pollution is based on what science says is needed to protect our climate;*
- 3. The cap covers as many polluting activities as possible and closes off loopholes;*
- 4. Every industry sector and every region is responsible for its fair share of pollution cuts; and*
- 5. Polluters pay and the money is reinvested in green economic transition that is fair for all.*

It is not acceptable for a national cap and trade system to be designed behind closed doors in Ottawa, where special treatment for the tar sands may be allowed to skew the system against others. Elected officials in Ottawa, provincial governments, and Canadian citizens must engage in the design of an effective and fair cap and trade system for Canada.

FREE PASS FOR TAR SANDS EMISSIONS?

Here are three scenarios. In the first, the tar sands industry reduces emissions according to its fair share with relation to other industries. In the second, tar sands emissions stay the same and begin to crowd out other sectors facing reductions. In the third, tar sands emissions double, and shut out other sectors more quickly – and entirely over the long term.



The False Choice: Caps vs. Carbon Capture

Hiding Behind “Either-Or”

When President Obama visited Ottawa in February 2009, Alberta Premier Ed Stelmach crowed that Obama was “clearly speaking Alberta’s language” because of the focus during the visit on carbon capture and sequestration (CCS).²⁷

The unproven technology of stripping carbon dioxide out of pollution and burying it underground has been held up by the oil industry and its supporters as the way to have its cake and eat it too – to expand the tar sands while reducing emissions.

The Alberta and Saskatchewan governments have portrayed the climate policy debate in Canada as a choice between cap and trade on the one side and CCS on the other, criticizing the former while extolling the latter.²⁸

In fact, should CCS be proven effective, it actually needs a high enough price on carbon – either through a cap and trade system or a carbon tax – to make it viable. Without such a price, industries will have little incentive to use the technology to reduce their emissions.



President Obama tours a solar factory in Oregon. U.S. action on global warming makes a cap and trade system in Canada inevitable – the race to create green jobs is on.

Photo: <http://www.flickr.com/photos/barackobama.com/2481231276/>

“Well designed environmental measures will not undermine Canada’s competitiveness... Governments need to create a business climate that will accelerate the integration of Canada’s economic and environmental agendas.”

— AVRIM LAZAR, President and CEO of the Forest Products Association of Canada

Why Bother?

When given the choice between dumping pollution into the atmosphere for free or nearly free, as opposed to making very large investments in pollution reduction technology, industry will choose the former every time.

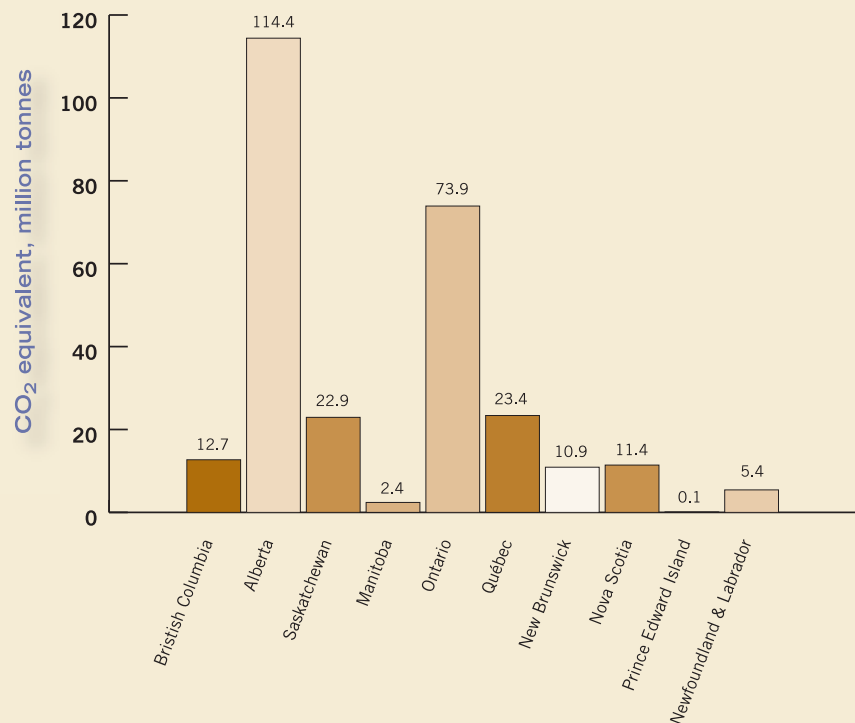
The Alberta Government's advisory group on CCS has suggested the price of carbon needed to spur the adoption of CCS may be as high as \$200/tonne.²⁹ Presently, the effective price for a tonne of carbon under Alberta's climate legislation is \$15/tonne.

Therefore, even with the billions of dollars of public subsidies now being given to polluters by the federal and Alberta governments to experiment with aspects of CCS, the incentive to actually implement CCS does not come close to being enough.

Under the current situation, it's not even a choice between cap and trade and CCS – it's neither.

CANADIAN EMISSIONS, BY PROVINCE

Under a hard cap on emissions, special treatment for the tar sands or Alberta will be felt most in Ontario and Quebec, the other major emissions sources in Canada.



“Our members work in some of the most energy-intensive industries, but they also stand ready to produce the next generation of clean energy products, such as steel for windmills or glass for solar panels. We can take serious action to prevent catastrophic climate change, while also rebuilding our manufacturing economy.”

— KEN NEUMANN, National Director for Canada, United Steelworkers

The Way Forward – ‘Both-And’

CCS may indeed someday play a role in helping to reduce some of the emissions in the tar sands, and more likely in other applications like coal fired power plants. But, it will never be implemented without a cap and trade system or a carbon tax set at a high price.

The adoption of a cap and trade system would determine whether CCS truly has a role in the tar sands and other sectors. Industry would weigh the costs and viability of CCS against other options and make the most economical choice. The technology would either be proven effective and then implemented, or other more cost-effective investments would be made to reduce emissions.

We recommend designing a system to be in place by the end of 2010, with the following characteristics:

- 1. It promotes the creation of green Canadian industries and a level playing field for trade;**
- 2. The cap on pollution is based on what science says is needed to protect our climate;**
- 3. The cap covers as many polluting activities as possible and closes off loopholes;**
- 4. Every industry sector and every region is responsible for its fair share of pollution cuts; and**
- 5. Polluters pay and the money is reinvested in green economic transition that is fair for all.**

Endnotes

¹ “Ottawa swoops in with climate-change offer,” Shawn McCarthy and Campbell Clark, the *Globe and Mail*, Nov 5, 2008.

² International Scientific Congress on Climate Change. *Key Messages from the Congress*. March 12 2009. http://climatecongress.ku.dk/newsroom/congress_key_messages/

³ See: <http://www.climateactionnetwork.ca/e/news/2008/cop14-colossal-fossil-2008-12-12.html#4>

⁴ National Inventory Report, Greenhouse Gas Sources and Sinks in Canada 1990–2007, Greenhouse Gas Division Environment Canada, Submission to the United Nations Framework Convention on Climate Change, April 2009.

⁵ McCarthy and Clark

⁶ McCarthy and Clark

⁷ “Energy Chief Says U.S. Is Open to Carbon Tariff,” Mar 18, 2009, *Wall Street Journal*.

⁸ See Title IV, Subtitle A, Part F, Subpart 2 of Waxman-Markey here: http://energycommerce.house.gov/Press_111/20090515/hr2454.pdf

⁹ Ottawa faces pressure to align with U.S. on green plans,” Shawn McCarthy, *Globe and Mail*, April 9, 2009

¹⁰ “West rejects Ottawa’s emission plan,” by Shawn McCarthy and Dawn Walton, *Globe and Mail*, April 10, 2009

¹¹ Climate Change and Green Jobs: Labour’s Challenges and Opportunities,” 25th CLC Constitutional Convention, Document No. 9, May 26 - 30, 2008, p. 15

¹² Every independent study has concluded that the government proposal will fail to meet even its own weak targets – see cite 19 in “Stuck in the Tar Sands,” *Climate Action Network Canada*, October 2008.

¹³ Note that the Canadian government’s “Turning the Corner” plan has now been removed from Environment Canada’s website.

¹⁴ See: <http://www.westernclimateinitiative.org/ewebeditpro/items/O104F19870.PDF>

¹⁵ See for example, the Sep 16, 2005 letter from Alberta to Ottawa here: http://www.ec.gc.ca/CEFARegistry/documents/participation/GHG_AB_noo.cfm

¹⁶ “Alberta green plan defies federal rules,” Jason Fekete, *Calgary Herald*, January 25, 2008.

¹⁷ “Groups skeptical of gov’t climate plan,” James Wood, *The StarPhoenix*, May 13, 2009

¹⁸ See: http://www.ceocouncil.ca/en/view/?area_id= 1&document_id=1345

¹⁹ Tar sands emissions are not well measured. Environment Canada’s Facility Greenhouse Gas Emissions Reporting Program only captures large facilities, and amounts to 35.6 million tonnes for tar sands (NAIS no. 2111114) - see: http://www.ec.gc.ca/pdb/ghg/onlinedata/downloadDb_e.cfm. Using calculations of emissions by activity per barrel, the Pembina Institute has estimated 2007 emissions to be about 40 million tonnes – see: <http://climate.pembina.org/pub/586>

²⁰ Government of Canada. 2008. *Turning the Corner: Detailed Emissions and Economic Modeling*. http://www.ec.gc.ca/doc/virage-corner/2008-03/571/Annex4_eng.htm

²¹ Environment Canada. *Canada’s Greenhouse Gas Emissions: Understanding the Trends, 1990-2006*. http://www.ec.gc.ca/pdb/ghg/inventory_report/2008_trends/trends_eng.cfm#toc_annex_1.

²² “Petrocurrency”: *Good or Bad for Canada’s Economy?*, Economic Viewpoint, October 11, 2006, Desjardins Economic Studies.

²³ The Ontario government estimates that a 5 cent drop in the dollar would result in a 0.1 to 0.8 percent jump in year one, and a 0.5 to 1.2 percent jump in year two, assuming the drop was sustained. Ontario’s GDP in 2008 was almost \$600 billion. See: <http://www.fin.gov.on.ca/english/budget/fallstatement/2008/08fs-annex2.html>

²⁴ 1990 emissions from the tar sands were 16.4 MT. See: http://www.ec.gc.ca/pdb/ghg/inventory_report/2008_trends/trends_eng.cfm#toc_annex_1 To reach 25% below 1990, tar sands emissions would need to be 12.3 MT.

²⁵ Government of Ontario. 2007. *Go Green: Ontario’s Action Plan on Climate Change*.

²⁶ http://www.ec.gc.ca/pdb/ghg/inventory_report/2006_report/a10_eng.cfm#a10_5

²⁷ “Obama “clearly speaking Alberta’s language,” Stelmach says,” Kelly Cryderman, *Calgary Herald*, February 20, 2009

²⁸ “Battle lines drawn on environment at premiers’ meeting,” Marianne White and Lee Greenberg, *Canwest News Service*, Wednesday, July 16, 2008

²⁹ Alberta Carbon Capture and Storage Development Council. 2008. *Accelerating Carbon Capture and Storage in Alberta: Interim Report*.

“We can let climate change continue to go unchecked, or we can help stop it. We can let the jobs of tomorrow be created abroad, or we can create those jobs right here and lay the foundation for lasting prosperity.”

— PRESIDENT BARACK OBAMA



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