

Linking – Is it in Canada's Future?

Emissions credit linking issues from a Canadian perspective

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Linking – In Canada's Future?

Canadian Linking Issues: An Overview

1. Current regime - how far away is far?
2. Where will we likely end up?
3. Canadian government view on linking.
4. Linking issues from a Canadian practical perspective.
5. What next? And with whom?

Current Canadian Regime (or lack thereof)

- To Kyoto or not to Kyoto
- Canada's GHG emissions are currently more than 25% higher than in 1990 and 32% higher than Canada's Kyoto target
- Latest action announced in 2008 now on hold
- 2008 system would have adopted a CDM integration
- No action until the US details formalized

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Current Canadian Regime (or lack thereof)

- Fragmented at best – Canada has 13 provinces and territories
- Ontario, Quebec Cap-and-trade system proposed
- Alberta-Canada's only functioning regulatory carbon market
- Montreal Climate Exchange
- Nova Scotia electricity industry cap
- BC carbon tax
- Long awaited federal regime put on hold for 6 years
- Interaction between Canadian and US regimes (WCI)

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Where will we likely end up?

- To ensure an even playing field within Canadian jurisdictions, need a uniform system
- Eventual interaction on the global stage
- Have to play well with the European and US/Mexican systems
- Kyoto is an almost global regime, linking makes sense
- BUT Kyoto does not set linking rules

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Canadian Government view on linking

- +Linking can enable international emissions trading, reducing costs and aligning carbon prices internationally
- +Aligning some design elements facilitates linking with other carbon pricing systems
- -Linking reduces the ability of governments to influence emissions through adaptive policy
- -Short term, an un-linked Canadian system would allow for more flexible policy design

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Practical issues with linking

- Need to manage qualifications of credits
- Need to manage compliance and oversight complexity
- Technical-both in generation and trading
- Environmental variances
- Market infrastructure linking will require centralized specifications
- Infrastructure can't be an afterthought

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What next and with whom?

- With whom a more important question than how
- Most likely will be with the US and Mexico, and the Canadian system must integrate with the US/Mexican system so as not to hinder trade
- Canada and the US/Mexico have an integrated transportation distribution system and work closely to simplify cross-border flow
- Canada and the U.S. have the world's largest trade partnership, with two-way trade in goods and services amounting to CAN\$712 billion in 2007. This averages to more than CAN\$1.3 million dollars a minute in trade.

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What next and with whom?

- The US, Canadian and Mexican economies are so closely linked that any disruption to industry will be significant
- NAFTA closely ties trade between the countries since 1992
- All three governments have an incentive to adopt a climate change regime that impacts both economies in a similar way and reduces competitiveness risks

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What next and with whom?

- From a Canadian perspective, linking with the US and Mexico would:
 - Reduce impacts on competitiveness
 - Substantially improve carbon market liquidity
 - Reduce the Canadian government influence on emissions prices
 - Subject the Canadian system to US/Mexican governmental policy decisions

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Thank you

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