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Submitted to:

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CANADA'S PEOPLE-CENTRED JUST TRANSITION DISCUSSION PAPER

IETA SUBMISSION TO NATURAL RESOURCES CANADA

The [International Emissions Trading Association \(IETA\)](#) welcomes this opportunity to provide input on Canada's "*People-Centred Just Transition Discussion Paper*", published by Natural Resources Canada (NRCan) in August 2021. We hope that IETA's recommendations and insights are used to inform a viable, equitable and transitional approach for Canada, which leverages the power of carbon markets to: maximize climate benefits and enhance climate ambition, while driving significant economic and co-benefit opportunities for Canadian workers and communities.

As the leading international business voice on climate markets and finance, IETA's non-profit organization represents over 180 companies, including many with assets, investments, and work forces across Canada. IETA's expertise is regularly called-upon to inform market-based policies and financing structures that deliver greenhouse gas (GHG) reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

Achieving Canada's updated 2030 Nationally Determined Contribution (NDC)¹ will take a heroic effort and massive sums of low-carbon finance and investments across all sectors of the economy. To ensure a "People-Centred Just Transition" is successful, both public and private action and investments at scale are critical. In light of this reality, **Canada should not only recognize but wisely leverage the evolving opportunities provided by carbon pricing and markets to support a just and equitable journey towards net zero**. Meeting the country's ambition in a manner that is fair and people-centred – but also guarantees lasting prosperity and competitiveness – requires the Government of Canada to explicitly acknowledge and harness the power of market solutions to deliver climate and socio-economic benefits.

IETA's comments on the Discussion Paper are structured around two main sections: **Section 1** summarizes IETA's Net Zero Principles; and **Section 2** features high-level priority input to inform Government of Canada's People-Centred Just Transition principles, approach, and governance.

¹ Government of Canada's proposed 2030 Climate Plan, "[A Healthy Environment and Healthy Economy](#)", published on 11 December 2020. Canada's updated NDC, submitted to UNFCCC in July 2021, aims to reduce national GHG emissions by 40-45% below 2005 levels by 2030.



SECTION 1: IETA NET ZERO PRINCIPLES

IETA's mission is to support broad and functional carbon markets, guided by the principles of efficient, low-cost, measurable climate outcomes and environmental integrity. As clearly stated in the *IETA's Global Council Guidance on Net Zero*², published in June 2020: "Carbon markets are not an end in themselves. They are a means of delivering climate goals. Now they must gear up towards net zero targets. Carbon markets can produce the price signals that motivate businesses, consumers and investors to take action at scale." Building on this guidance, **IETA's Principles for Net Zero Ambition in Canada can be summarized below.**

- ✓ In Canada, like in other jurisdictions, IETA supports enhanced climate ambition underpinned by climate science that aligns with the United Nations Framework Convention on Climate Change and the Paris Agreement goals.
- ✓ Mandatory and absolute caps for GHG emissions must ultimately decline to net zero, in order to align with the Paris Agreement targets.
- ✓ Net zero implies that not all reductions and removals will be direct from the emissions source. Reductions and removals outside of high-emitting sectors and industry, including across natural and geological sinks, will have vital roles to play to support near and longer-term targets.
- ✓ Carbon pricing, technology and finance will be critical to delivering this level of climate ambition.
- ✓ Well-designed carbon markets can deliver the price signal, prompt the investments, and accelerate use of advanced technologies and innovations, including across technological and biological sinks. **This can enable higher ambition, a more just transition and an acceleration toward net zero.**
- ✓ Canada must embrace carbon markets that allow for trading, compliance flexibility, and linkage across borders to achieve its enhanced 2030 NDC and net zero goal.

SECTION 2: CARBON MARKETS FOR A PEOPLE-CENTRED JUST TRANSITION

The following provides IETA's high-level priority input to inform Government of Canada's People-Centred Just Transition principles, approach, and governance. Our insights are guided by the need to recognize and leverage the critical opportunities provided by well-design carbon markets – domestically and internationally – to support a just and equitable transition to net zero for Canadians.

CARBON MARKETS TO "BUILD BACK BETTER" & ENABLE JUST TRANSITION

As the COVID-19 situation evolves through 2021, consideration must be given to how economic impacts and our climate crisis can be addressed in unison, or at least in a complementary fashion. The pandemic

² IETA Council Guidance on Net Zero Climate Ambition. June 2020. ([Link](#))



experience and impacts have arguably sparked renewed appreciation for the vital role of governance, science/evidence-based decision-making, international cooperation, and private sector engagement.

The reality is that economic impacts and recovery spending are impacting climate budgets worldwide, including in Canada. **Despite this, climate commitments and NDC targets remain and will become more ambitious overtime.** As such, it becomes imperative that limited public dollars, regional cooperation, and policy enabling frameworks are swiftly prioritized and implemented to send market signals that leverage vast sums of Paris-aligned private capital into results-based climate finance and a viable Just Transition.

PEOPLE-CENTRED MARKETS FOR TRANSITION & NEW OPPORTUNITIES

IETA appreciates that people – citizens, workers, consumers, and communities – are the focus of Canada’s just and equitable transition efforts to reach climate targets. While carbon markets are aimed at reducing greenhouse gas emissions across sectors and industries, **they are also unmatched mechanisms to ensure these activities are done so in an accelerated, fair, and transitional manner.** In other words, good market design means tangible, transitional and pragmatic support for lasting prosperity and peoples’ livelihoods.

Carbon pricing is one of the most effective and least-cost options for mitigation. These systems allow people and business to switch away from fossil fuels “on their terms” and **in a manner that protects economic growth and competitiveness while stimulating innovation and employment opportunities.**

Robust and functional carbon pricing programs can also generate billions³ of dollars in government revenue, which can be **wisely invested in clean projects and technologies, R&D, and worker/community transition support.** Over many years, existing Canadian and international carbon markets have shown policy performance/evaluation data showing the transitional support and job creation achieved through “smart” revenue recycling.

CARBON MARKET DATA & RESEARCH TO INFORM POLICY & FUNDING DECISIONS

The Government of Canada must ensure that public funds, including those generated through carbon pricing, are delivered to the “right sectors at the right time” throughout the decarbonization shift. To help achieve this goal, NRCan and other relevant Ministries should be guided by data/research-informed funds in supporting effective and clearly delineated transitional outcomes.

Canada’s increased carbon price schedule through 2030, along with updated (2023-2030) benchmark criteria published, imply higher future carbon costs but also more data on industry/competitiveness

³ EU ETS ([Link](#))



impacts and market reporting. These growing data sets are well-positioned to support just transition research and could act as key functions to inform policy and funding decisions.

Building on above, Canada's maturing and expanding carbon pricing regime should also provide more consistent and granular information, including on various costs and constraints faced across different affected industries, regions, and communities. In addition to traditional economic indicators, this benchmark/pricing implementation data can function to support just transition goals by elucidating unique industry, community, and workforce "stresses" over time. What's more, this data can help guide just transition measures and channeling of resources to make sure that high-impacted workers obtain funds, tools and/or training to maintain/enhance wage levels and productivity through 2030 and beyond.

HIGH-INTEGRITY OFFSETS SUPPORT A PEOPLE-CENTRED JUST TRANSITION

One unique but important element of many carbon market systems, including across Alberta, Quebec and the federal OBPS, are high-integrity carbon offset mechanisms. **Compliance offset programs should play a valuable "enabling" role to any viable People-Centred Just Transition for Canada.** Not only do these outcomes-based market tools drive real and measurable GHG reductions and removals, but they also play a vital cost-containment role in driving least-cost mitigation, thereby keeping carbon costs affordable to covered industries and consumers. In addition, offsets can spur job creation, entrepreneurialism, and new revenue streams across a diverse range of types of program participants – including Canadian landowners, farmers, and indigenous communities.

LEVERAGING PROVINCIAL CARBON MARKET LEARNINGS & LEADERSHIP

IETA has been a stalwart champion of Canada's historic provincial carbon market leadership across Quebec, Alberta, and British Columbia. These provincial carbon pricing and market experiences should be considered and further enabled through any future Canadian People-Centred Just Transition approach. Some examples of this provincial leadership are summarized below.

Alberta is an especially salient example of harnessing power and resources from its carbon market to help diversify its economy while supporting its industries and communities. With its strong and expanding provincial compliance carbon market in place since 2007, Alberta Government has generated over \$600 million in program revenue from Alberta large-emitting industries. These carbon market funds, managed and overseen by Emissions Reduction Alberta (ERA), have successfully mobilized investments of \$4.5 billion, resulting in the deployment of 200+ clean projects with a total estimated climate impact of nearly 40 million tonnes of GHG emissions reduced⁴. These projects run the gamut of technology types across Alberta – including wind, biofuels, wastewater systems, and smart agriculture.

⁴ Emissions Reduction Alberta (ERA). August 2021. ([Link](#))



IETA strongly recommends that Canada’s future just transition activities work closely with – and learn from – these provincial leaders holding long-term experience with carbon fund management, deployment, and impact analyses. **NRCan should also engage extremely closely with industry, clean project and market experts** who have substantial practical knowledge working both directly and indirectly with these provincial carbon market and funding mechanisms.

INTERNATIONAL MARKETS FOR CANADIAN CLEAN EXPORTS & EXPERTISE

As IETA has voiced numerous times in the past to the Government of Canada, it is **prudent for Canada to pursue international carbon market approaches in a strategic manner, prioritizing opportunities that could promote international uptake and scaling of Canadian “clean” exports (i.e., products, services and expertise)**. As such, IETA was pleased to see explicit reference to this consideration in Canada’s proposed 2030 Climate Plan, stating that: “Canada will continue to push for strong rules for international carbon markets (Article 6) to establish a credible regime that is based on environmental integrity and *provides predictability and certainty for investors and Canada’s exporters of clean technology solutions*”⁵.

We encourage NRCan to work closely with ECCC and Global Affairs Canada on a comprehensive approach to “**Canada’s (Article 6) ITMO Strategy and Roadmap**”. A core pillar of this work plan should centre on strategic promotion of Canadian clean exports through international (Article 6) markets. This exercise should be done in close cooperation with Canada’s business community, and these market-clean tech road-mapping activities should be complementary and aligned with Canada’s Just Transition plan.

CANADA’S COMPETITIVE ADVANTAGE & NEGATIVE EMISSIONS TECHNOLOGIES

Building on above observations, meeting Canada’s enhanced climate ambitions will require scaling of GHG mitigation and avoidance, as well as sinks and removals (nature-based and geo-technological). Without costly overhauls to the fundamental infrastructure and landmark industries that drive the Canadian economy, Canada must rely on and unlock the value of negative emissions technology (NETs) opportunities at scale. Canada has the tremendous land mass and now proven expertise in biological and geological removal⁶ and storage for this to be an economic competitive advantage. This economic advantage has not only arisen because of the geological advantage but also the vast and diverse hardworking Canadians that have been responding to a changing world around them and the signals that have been sent because of carbon markets. While finalizing Canada’s People-Centred Just Transition plan and governance, we encourage NRCan to not only be aware of, but also inspired by, the enormous climate and socio-economic benefits for Canada and the world should robust domestic and international market opportunities for NETs be enabled.

⁵ A Healthy Environment and a Healthy Economy. ([Link](#))

⁶ As exemplified, but not limited to, ([here](#))



LINKED DOMESTIC & INTERNATIONAL CARBON MARKETS FOR JUST TRANSITION

The benefits of domestic and international carbon market expansion are clear: the bigger and broader the market, the wider the range of abatement opportunities, finance and investment interest, technology innovations and improved efficiencies, resulting in lower program costs and an expanded portfolio of climate and socio-economic benefits.

IETA applauds Canada for making significant strides with its domestic federal Output Based Pricing System in a manner that both supports and spurs provincially administered programs, while also enabling intra-Canadian market linkages. Through COP26 in Glasgow (November 2021), we now hope to see Canada's domestic carbon market leadership grow to the international arena via clear Government of Canada commitments to use ITMOs and "cooperative approaches" in pursuit of both 2030 and net zero targets. **Given the Ministry's lead role on development and delivery of Canada's People-Centred Just Transition, IETA believes that NRCan must play a leadership role in supporting this objective through COP26.**

COMPETITIVENESS AND BORDER CARBON ADJUSTMENT CONSIDERATIONS

Pursuit of NDCs and net zero commitments must always be mindful of potential impacts on the competitiveness of key sectors of Canada's economy, especially in the event that key trading partners have adopted less ambitious targets. With Phase 1 launch in August 2021, Canada is currently exploring the potential application of Border Carbon Adjustments (BCAs) while aiming to align with "like-minded economies" and trade partners, such as the EU and the US. These efforts will require deep examination of how pricing and trade mechanisms might impact Canada's climate strategy, ability to meet targets and/or impact the country's competitiveness.

These trade and competitiveness considerations are especially salient in the context of how Canada evaluates and treats countries based on levels or stringency of climate ambition and/or carbon pricing policies. With this in mind, it is important for Canada to execute a just transition strategy that closely aligns and complements these BCA option reviews and consultations.

LOOKING INTERNATIONALLY AT APPROACHES TO JUST TRANSITION

We encourage NRCan to carefully watch leading international jurisdictions that are building and delivering Just Transition strategies and mechanisms. For instance, the EU has made impressive strides in creation a Just Transition Mechanism (JTM), with its first pillar of a Just Transition Fund (JTF). The mechanism and fund are resourced through allowance auction revenues under the soon to be expanded EU Emissions Trading System, the region's long-standing cap-and-trade system which represents a cornerstone policy tool to help reach the EU's 2030 and carbon neutral 2050 targets. Focus of the €72 billion JTF is on



economic diversification of the EU territories most affected by the climate transition combined with reskilling workers and jobseekers.

In addition to tracking the Just Transition Fund design and revenue use, broader allowance revenue use from the EU ETS market is important for NRCan to watch. In 2021, over €20 billion in fund revenue has resulted from the cap-and-trade auctions and discussion is currently underway on how to use the remaining half of the fund: 50% of proceeds are designated for climate-based investments; and the remaining 50% can be used for other government spending. A current working proposition is to use the revenue to aid low- and middle-class families facing the burden of rising energy prices.

Europe is one of many examples of how market-based tools and approaches, particularly with respect to revenue use, hold vast potential for facilitating and delivering People-Centered Just Transitions. Given Canada's current and expanding carbon pricing landscape, which include many "channels" both federally and provincially for carbon pricing revenues, there are multiple opportunities for targeted and strategic use of proceeds to support just and equitable transitions from coast-to-coast. IETA welcomes the opportunity to support NRCan in its monitoring of international activities and models to inform best practice just transition approaches in Canada.

CONCLUSION

Once again, we appreciate this important opportunity to record IETA's insights and recommendations on the Discussion Paper. Our community continues to dedicate significant effort to best leverage IETA's deep global and domestic Canadian climate finance, policy and market expertise to provide NRCan with solutions-oriented thinking to inform a pragmatic decarbonization/net zero pathway and People-Centred Just Transition for Canadian works and communities.

We look forward to more frequent engagement with NRCan on just transition strategy development and governance for Canada through COP26 beyond. If you have questions or require further information, please contact Katie Sullivan, IETA Managing Director, at sullivan@ieta.org.