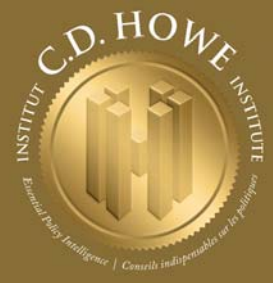


Intelligence MEMOS



From: Brian Livingston
To: Environment Minister Jonathan Wilkinson
Date: December 17, 2019
Re: **INTERNATIONAL CREDITS FOR CANADA REDUCING OVERSEAS GHG EMISSIONS**

Canadian governments and industry are agreed that Canada should increase its offshore exports of liquefied natural gas (LNG). Part of the attraction is the possibility that Canada could lay claim to some of the reductions in greenhouse gases that would result from Canadian gas replacing coal overseas.

This hinges on Article Six of the Paris Accord, which outlines the rules for carbon trading between nations. The Madrid climate summit ended Sunday with no agreement on the details for those rules, or much else. This means the possibility remains that Canada's LNG exports could count towards our emission targets remains alive.

Let's explore some of the issues arising from this proposal, and consider a specific idea that might work.

The arguments for LNG exports hinge on the fact that a unit of electricity generated by natural gas produces only 50 percent of GHGs as the same unit generated by coal. Using Canadian LNG to substitute for coal-fired electrical generation in other countries would reduce global GHG emissions.

To give a specific example, Canada exports LNG to China. China then uses this LNG to drive a new power plant. This plant allows China to close an existing coal-fired plant and still generate the same amount of electricity. The global benefit is that global GHG emissions are reduced by 50 percent or more.

Under the structure of the Paris Climate Accord GHG emissions are measured country by country. Given this structure, only China would get credit for reducing its GHG emissions.

Notwithstanding this, the argument emanating from industry, Ottawa and the premiers is that Canada should get credit for some or all of the GHG reduction stemming from the use of Canadian LNG.

The legal basis for this argument resides in Article 6, which states, in effect, that if country A does certain things that result in a reduction of GHG emissions in country B, then country A can claim credit for such reduction provided that country B agrees to this arrangement. Canada should make an application under Article 6, runs the argument.

There is some resistance to this proposal. Some environmental groups have argued that Article 6 was not intended to be used as a means of increasing the export of fossil fuels such as LNG. Still, LNG exports would reduce global GHG emissions, and as the saying goes, the perfect is the enemy of the good.

The key point about Article 6 is that it requires agreement by both countries. To date, there have not been many such agreements.

It may be possible to get China to at least agree to give Canada credit for the increase in Canada's GHG emissions caused by the production of natural gas and subsequent liquefaction for export.

Those emissions are not small – if several LNG plants are constructed in Canada, the GHG emissions would be in the order of tens of millions of tonnes per year. Adopting this proposal would mean emissions attributed to China would increase by that amount, but would be more than offset by the overall LNG-driven reductions. Canada, meanwhile, would at least not be penalized for exporting this relatively less emissions-intensive fuel.

To repeat, this proposal would require China's agreement, which might be achieved by making it a condition of the export of LNG.

Before agreeing to such a condition, China would likely canvas other potential LNG suppliers (the US, Australia, Qatar, Mozambique etc.). If they are prepared to meet the price without the credit transfer, Canada's LNG exports might get left out in the cold.

China is unlikely to agree to this Article 6 transfer for free. Canada would have to make the policy decision as to how much it is prepared to reduce the LNG export price in return for China taking the hit, so to speak, for emissions associated with its production and liquefaction in Canada. China would have to decide how much value it places on increasing its recorded GHG emissions in that way. As with any negotiation, a deal could be reached if these two respective assessments of value are different. For example, the lower price could imply a cost of say \$80 per tonne of GHG emissions. If Canada values the benefit of a tonne of GHG emissions at \$100 per tonne and China assesses the cost of a tonne of GHG emissions at \$50 per tonne, then a deal would be possible.

Bottom line, it is certainly worthwhile for Canada to explore this proposal further.

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