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Fund swaps money for carbon dioxide

Climate Fund aims to cut gas emissions

Budget recognizes CO₂ as a tradable commodity

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OTTAWA—The ink is barely dry on the government's latest blueprint for tackling climate change, contained in this week's federal budget, and already a shift is underway that is both symbolic and revealing.

At first glimpse, the change appears to be largely semantic. Environment Minister Stéphane Dion calls the centrepiece of the new plan the Climate Fund. The budget, however, labelled this particular aspect the Clean Fund.

The tug-of-war over the two-names program is more than mere semantics because the \$1 billion Climate/Clean Fund is the centrepiece of Ottawa's new plan to rein in the excess emissions of greenhouse gases from human activities. Most scientists say these emissions are raising the average global temperature and triggering other climate changes.

The climate change plan mostly uses the traditional policy tools of government — regulations, incentives, taxes, spending on public infrastructure and even a puzzlingly large \$200 million investment to develop a science and technology "strategy" for sustainable energy.

The new plan also flirts with possible trouble by setting up tax breaks for high-income earners who could buy "losses" from companies making big capital investments in emission reduction technology. A similar program for scientific research tax credits in the late 1980s turned into a boondoggle of shell corporations exploited by rich professionals like doctors and dentists.

But the Climate/Clean Fund is the heart of the plan because it is based on a new concept that has already taken hold in Europe but was slow to penetrate the thinking of the federal government, especially the risk-averse finance department. That concept is that carbon dioxide, the chief greenhouse gas, is a commodity that can be bought and sold by the tonne just like frozen pork bellies.

"It would be like an environmental investment bank for the climate," Dion said in Montreal the day after the budget.

"Bring me your tonnes and we'll give you financing," he told a largely business audience at a greenhouse gas conference.

Federal bureaucrats and even cabinet ministers can't always identify the best program for everything, and there's too much paperwork, Dion conceded.

"There is another way of doing things and it's to get more involved in the market. The market can do the paperwork," he said.

To avoid the worst excesses of unbridled capitalism, however, the Climate/Clean Fund needed an approach proven to deliver a green result. Enter environmental veteran Louise Comeau and the Green Municipal Funds.

Comeau has been working on climate change issues in Ottawa since 1991, starting out at Friends of the Earth, followed by the Sierra Club. In the late 1990s, she shifted to the Federation of Canadian Municipalities and launched the Green Municipal Funds.

'It's all about the carbon culture vision, so we start to think about carbon as a commodity'

Louise Comeau, Sage Climate Project

Since 2000, the funds have made loans (and limited grants) for 340 projects in communities across Canada that cut emissions of greenhouse gases, promoted renewable energy or improved local water or air quality by reducing pollution. Often, the projects accomplished more than one goal, like pumping cold water from deep in Lake Ontario to cool downtown offices in Toronto. The Green Municipal Funds loaned the cooling-water project \$10 million to get it started. Just as important, the initial \$250 million federal investment in Green Municipal Funds has triggered more than \$1 billion spending on such green infrastructure by provinces, communities and the private sector. Ottawa likes the program so much that this week's budget pumped an immediate \$300 million more into the endowment.

Since August, Comeau has been using her extensive experience to tackle policy issues on behalf of the Sage Climate Project, a think-tank based in Vancouver.

Her main project was a proposal for Ottawa to establish a Clean Energy trust fund, which formed the basis of the Climate/Clean Fund unveiled in this week's budget.

"My approach is more of an environmental capitalist while still recognizing and taking account of the public interest," Comeau says.

"It's all about the carbon culture vision, so we start to think about carbon as a commodity. The aim is to get the most tonnes at the least cost with the greatest environmental impact."

The budget papers say the Climate/Clean Fund will be a market-based approach that generates measurable results in three ways:

★By financing projects in Canada that produce almost instant reductions in greenhouse gas emission levels, like solar energy systems. The fund would buy the tonnes of emission reductions as so-called "domestic offsets." ★By private sector partnerships on long-term projects, such as capturing carbon dioxide emissions from coal-fired power plants. The fund would pay in advance for reductions to be delivered years later.

★By buying emission credits internationally, either by using the somewhat clunky Kyoto mechanisms, or through bilateral arrangements. Dion singled out Ukraine as a country where Canada could make technology-for-credits deals.

"The perception is that you must have this all figured out right off the top. No. You design the framework and leave the team to do the job," Comeau says.

For the Climate/Clean Fund, the framework came from the Carbon Trust in Britain and the Renewable

Energy Fund in Massachusetts, both of which use loans, grants and equity. Comeau's version added the concepts of buying emission credits in the market and issuing formal requests for proposals from the private sector.

Comeau says three key elements accounted for the success of the Green Municipal Funds and will be equally crucial for the Climate/Clean Fund.

"It has to be entrepreneurial and it has to be driven by systems-thinking. Sustainability is all about systems-thinking. When Vancouver wanted a loan to switch from diesel buses to trolleys, we asked them where the green electricity would come from."

Third, says Comeau, you have to make sure that the people who design and run the fund share the same carbon vision so "they can inspire applicants to do more than they thought they could."

And calling it the Climate Fund makes much clearer just what that vision is.

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