

The Struggle of Ideas and Self-Interest:  
Canada's Ratification and Implementation of the Kyoto Protocol

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Introduction

Canada's ratification of the Kyoto Protocol in December 2002 cannot be accounted for by political science theories focused exclusively on self-interest and political institutions. Canada's obligation to reduce its emissions to 6% below 1990 levels by the Kyoto commitment period of 2008 to 2012 represents a tremendous economic and political challenge. When Canada signed the Protocol in 1997, it anticipated that it would need to make a reduction of 138 MT, equivalent to a 21% reduction, below the "business as usual" (BAU) projection for 2010. However, because emissions significantly increased prior to ratification, when Canada ratified Kyoto five years later it anticipated that it would need a reduction of 240 MT or 26% below the revised 2010 projection. By the time Canada's implementation plan was finalized in April 2005, the gap was double the original target: 270 to 300 MT, equivalent to a 33-35% reduction below the 2010 baseline. Delays in taking action have not only increased the total quantity of reductions needed, but have also entailed much steeper annual reductions to meet the same target. Thus, although Canada perceived a need for reductions of 6 MT/year (1%/year) when it signed Kyoto in late 1997, by the time it finalized its plan in 2005 it knew it would have to make reductions of 45 MT/year or about 6%/year to achieve compliance.<sup>1</sup>

Canada's commitment to Kyoto also is surprising given its status as a major fossil fuel producer and exporter. That is a contributing factor to Canada's high per capita greenhouse gas emissions, at 22.5 MT/year the second highest among industrialized countries after Australia.<sup>2</sup> Not only do Canada's own actions to mitigate greenhouse gas emissions have the potential to impose significant costs on an economically and politically influential domestic industry, but comparable actions by other signatories to the Protocol also could harm foreign markets for Canada's oil and gas. More generally, Canada's open economy,<sup>3</sup> with exports accounting for 40% of GDP, was threatened by a regime that does not demand comparable emissions reductions from competitors in developing countries and industrialized countries that did not ratify. The fact that the United States, Canada's main competitor and market under the North American Free Trade Agreement (NAFTA), confirmed in 2001 that it would not ratify Kyoto

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<sup>1</sup> The 1998 figure is the difference between 1997 emissions of roughly 600 MT/year (an extrapolation between the 1990 emissions of 564 and the 2010 projection of 669 MT) and a 2010 target of 531, divided by 12 years (Government of Canada, 1999, Chart 3.2). The 2005 figure assumes 2005 emissions of 790 MT (an extrapolation between 740 MT in 2003 and 900 MT in 2010) vs. a target of 560 MT in 2010, divided by 5 years.

<sup>2</sup> Based on 2003 emissions, excluding land use, land use change, and forestry, Australia's per capita emissions of CO<sub>2</sub> equivalent are 25.6 tonnes, Canada's 22.5 tonnes, and the US' 23.3 tonnes.

<sup>3</sup> Canada's imports plus exports represent roughly 70% of GDP.

dramatically increased the stakes for Canadian business given the close integration of the two economies: over 80% of Canada's exports are to the US while over 70% of imports are from the US. Canadian manufacturers feared not only that the costs of compliance with Kyoto would place their goods at a competitive disadvantage in both US and Canadian markets, but also that Canada would become a less attractive opportunity for foreign investment. In light of these factors, it is not surprising that the federal government faced strong and virtually unanimous opposition to ratification from the Canadian business community, which was able to bring to bear resources and political influence that environmentalists could not possibly match.

Institutionally, Canadian federalism was a tremendous obstacle to Canada's ratification. The provinces' ownership and control of natural resources (including oil and gas) virtually guaranteed strong provincial opposition to ratification. Only two of ten provinces openly supported Kyoto in 2002, and even they objected to the federal government's unilateral decision to ratify. That Canada ratified Kyoto despite these challenges represents a triumph of ideas, in the form of commitments both to environmental sustainability and multilateralism, over economic interests and institutions. Of course, that any country should participate in an international effort to protect the global commons, rather than availing itself of the opportunity to free ride, speaks to the influence of norms over material self-interest. The question here is how that came to pass at a domestic level. In the Canadian case, the triumph of ideas over self-interest was facilitated by a highly unusual set of circumstances, in particular a Prime Minister willing to pursue bold policy initiatives at the end of a long political career, and a successful ploy by the Prime Minister in an ongoing struggle over the party leadership to commit to a "long goodbye," which exaggerated his control over his Cabinet at a crucial moment in the ratification debate. This confluence of circumstances allowed the Prime Minister to almost single-handedly bring the institutional capacity of Canada's parliamentary government to bear to ratify Kyoto.

That said, institutional and political obstacles reasserted themselves with respect to implementation before the ink was dry on Canada's ratification papers. Political concessions quietly negotiated by the federal government with the business community in the lead-up to ratification have rendered it impossible for Canada to comply with Kyoto through domestic actions alone. Compliance will thus require reliance on Kyoto's international flexibility mechanisms for a significant fraction, possibly more than half, of Canada's reductions. Yet the notion of investing in international credits is politically unpopular in Canada. While Canada's surprising resolve thus has been undercut by traditional power politics, it remains to be seen whether the ideational commitment to Kyoto will be rendered entirely symbolic, or whether Canada's continued participation in the Kyoto process will place it on a path for greater action than it might otherwise have taken, if one less aggressive than promised at the time of ratification.

The paper proceeds as follows. The next section situates the argument theoretically. Thereafter, the two following sections present a history of Canadian climate change policy, before and after ratification. The account draws on 25 interviews

with NGOs, industry, and senior federal and provincial officials, and Ministers.<sup>4</sup> The paper then returns to theory to analyze two outcomes -- Canada's decision to ratify Kyoto, and its plans for implementation.

### Domestic Variables in an International Context

As noted above, this paper seeks to explain two distinct, and not entirely consistent, outcomes: Canada's surprising decision to ratify the Kyoto Protocol in December 2002 despite the US' withdrawal from the agreement; and Canada's actual policies to mitigate climate change, with particular attention to the 2005 federal plan to implement Canada's Kyoto obligations. Although issued more than seven years after Canada signed Kyoto, and just two and a half years before the beginning of the Kyoto commitment period, the latter is a surprisingly general document, accompanied by neither regulations for industry nor specific plans for project expenditures. However, beyond the striking delay in developing a concrete implementation plan, the Canadian plan is also noteworthy for the strategy it lays out. In particular, the plan proposes reliance on spending, for public sector projects and massive private sector subsidies, to achieve roughly 80% of reductions. Moreover, if Canada is to have any hope of compliance, a significant, but studiously hidden, fraction of that spending will need to be used to purchase international emissions credits.

The theoretical framework employed here differs from most previous work on the Kyoto Protocol and climate change more generally in reversing the focus from the international to the domestic context. The decisions to ratify the Kyoto Protocol and to adopt concrete measures to mitigate greenhouse gas emissions are, in the end, domestic policy decisions, albeit ones shaped by international influences. As such, three broad domestic variables are considered: organized interests and electoral politics; political institutions, and ideas. While the focus is on the impact of these variables on policy decisions at a domestic level, the paper also seeks to identify the direction and degree of international influence on both the balance of interests and the ideas brought to bear in the domestic political debate. Finally, I consider the possibility that spillover from other domestic or foreign policy debates influenced decisions in the case of Kyoto and climate change policy more generally.

#### Interests

The category of domestic interests includes both public opinion and interest group pressures. The assumption here is that policymakers are motivated primarily by electoral incentives. However, interpretation of those incentives is often difficult with respect to the environment, where public opinion is typically characterized by a high level of support for environmental protection (elicited by closed-ended questions about the environment) and low levels of attention to environmental issues (elicited by open-ended questions concerning respondents' priorities). While there is no question that voters

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<sup>4</sup> Confidential interviews were conducted with 6 current or former Cabinet Ministers, 15 federal and provincial bureaucrats from central agencies and line departments, 3 environmentalists, and 1 industry spokesperson.

approve of environmental policy announcements, it is questionable how much impact that has on voters' choices at the polls given the low salience of the environment in most elections.<sup>5</sup> As discussed in greater detail below, public opinion was solidly in support of Kyoto throughout the ratification debate. During the fall of 2002, when the Alberta government and the business community engaged in a public campaign against Kyoto, support for ratification declined only from 79% to 73%, and rebounded to 79% during the House of Commons debate over ratification in December (EKOS 2002). However, polls also revealed that the public had little idea what the Kyoto Protocol was about nor what it entailed for Canada – support fell below 50% when Canadians were presented with the prospect of an unspecified “Made in Canada” alternative (Chase 2002b). The high level of support would seem to follow from the belief by 68% of those polled that ratification of Kyoto would have either no impact or a positive impact on jobs in Canada (EKOS 2002). Moreover, neither the environment nor climate change was highly salient in the lead-up to ratification, though the political debate over Kyoto does appear to have increased public attention to environmental issues during 2002. Even then, in November 2002, just before ratification, just 8% of Canadians considered the environment the “most important problem” facing the country, compared to 33% who identified health care, a potential competitor for Kyoto implementation dollars (IPSOS 2002). Moreover, the emergence of concern for the environment and climate change was most dramatic in Alberta, where most of those polled opposed ratification, suggesting that an increase in salience cannot necessarily be read as support for Kyoto.<sup>6</sup> Indeed, it is telling that after a quite high profile federal-provincial conflict over ratification and contentious debate in Parliament in the fall of 2002, only half of Canadians polled in the spring of 2003 were even aware that Canada had already ratified Kyoto (Ekos 2003). Canadians indicated their support for Kyoto when asked, but apparently were not paying much attention to it otherwise.

Although the public may not have been attentive to climate change policy, there were, of course, organized interests on both sides of the debate who *were* highly attentive. Not surprisingly, the Canadian environmental community, led by groups such as the Sierra Club of Canada, the Pembina Institute for Appropriate Development, and the David Suzuki Foundation, were strongly supportive of ratification. *Political globalization* in the form of trans-national ties to other environmentalists has, in the past, strengthened Canadian environmentalists' campaigns (Harrison 2002; Bernstein and Cashore 2000). However, the external groups with whom Canadian ENGOs have the closest ties are those in the US, who were understandably preoccupied with climate change policy at home (though a case of influential US support at a key moment in development of the 2005 plan is discussed below). In any case, the resources, access, and influence of the environmental community paled in comparison to that of their

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<sup>5</sup> The environment has never been a significant issue in a Canadian federal election. Although the environment has enjoyed high salience with voters during certain periods, most notably 1969-70 and 1989-90, both occurred between elections and in any case elicited cross-party support for proposed policy measures.

<sup>6</sup> The polling firm Ipsos Reid (2002) reported that the percent of Canadians indicating the environment or climate change as one of their top two issues rose from 6 percent in May 2002 to 17 percent in November 2002. Health was cited by 50% of respondents. The fraction citing climate change or environment in Alberta at 36 percent was more than twice as high as in any other province.

opponents, a virtual who's who of Canadian business. The opposition was led by the Canadian Council of Chief Executives (previously known as the Business Council on National Issues), the leading voice of big business in Canada, the Canadian Manufacturers and Exporters, whose members produce 90% of Canadian exports, and the Canadian Association of Petroleum Producers, the voice of the upstream oil and gas industry and thus of the Alberta economy. In contrast to environmentalists, the business community's opposition to Kyoto was strengthened by the international context, in particular by *economic globalization*; they argued that ratification of Kyoto would hinder Canada's competitiveness in global markets and especially in the North American free trade zone.

In summary, it is by no means obvious that public opinion can explain Canada's ratification of Kyoto in light of the lack of salience of the issue for most voters. Among the attentive public actively lobbying government, the opposition to ratification and implementation clearly had the upper hand.

### Institutions

Political institutions also presented formidable obstacles to both ratification and implementation. Canada is a relatively decentralized federation, and, in the case of Kyoto, the particular division of powers further exacerbates the challenges for ratification. The federal government has a relatively weak international treaty power, in which the federal government has acknowledged authority to *sign* treaties but not necessarily to *implement* them, that is, unless it has sufficient authority under other heads of power. In contrast, provincial governments own and thus have clear authority to manage publicly owned natural resources within their borders. With about 90% of Canada's land mass still in public ownership ("Crown land"), public ownership is significant indeed. As a result, the provinces control the natural resources most relevant to climate change policy, including oil, gas, and coal, as well as forest sinks. Although the federal government has indirect means to influence resource use, for instance via its taxation power, any such incursions are guaranteed to provoke strong opposition from the provinces, which jealously guard their control of natural resources and thus their local economies.

Provincial governments also have authority over local matters, such as building codes and transportation planning, that are presumptive components of any national greenhouse gas mitigation strategy. In fact, the federal government has historically deferred to the provinces with respect to environmental policy generally (Harrison 1996), setting a relatively small number of national standards, and even then primarily with respect to water, rather than air, pollution. Although the federal government has been more assertive during periods of heightened salience of environmental issues, including in the late 1980s and early 1990s, in the years leading up to the Kyoto Protocol the federal government and the provinces undertook an elaborate "harmonization exercise" to disentangle their environmental responsibilities. That effort culminated in the 1998 Canada-Wide Agreement on Environmental Harmonization, which was widely viewed as

a return to a more decentralized approach to environmental protection in which provincial governments would normally take the lead (Fafard and Harrison, 2000).

The potential for federal-provincial conflict is further exacerbated by the regional nature of Canada's economy. Oil and gas resources are primarily located in Alberta, and to a lesser extent Saskatchewan and, with the emergence of offshore oil, Newfoundland and Nova Scotia. In contrast, untapped hydro-electric potential is found in Quebec, Manitoba, and Newfoundland. Automobile manufacturing is exclusively located in Ontario, where it is the leading industry. As a result, greenhouse emissions vary significantly among the provinces, from Alberta at 71 tons per capita (comparable to OPEC states with the highest national per capita emissions in the world) to Quebec at 12 million tons per capita.<sup>7</sup> Moreover, that disparity is increasing. As the oil and gas industry has boomed in the last decade, Alberta and Saskatchewan, with just 13% of Canada's population, contributed over 50% of Canada's substantial growth in greenhouse gas emissions between 1990 and 2002. Any national effort to reduce greenhouse gas releases thus has the potential for dramatic regional variation in costs -- and provincial governments can be expected to serve as powerful defenders of "their" local industries.

If Canada's federal system is a source of policy incoherence, its parliamentary system, buttressed by a first-past-the-post electoral system that tends to deliver majority governments, offers countervailing institutional capacity for decisive action (Weaver and Rockman 1993; Weaver 2003). Not only does Canada's parliament exhibit relatively strong party discipline even among British-style parliamentary systems (Franks 1987), which could thus facilitate passage of controversial climate change legislation, but the decision to ratify international treaties rests with "the government" (Cabinet) alone. The Canadian Cabinet thus has tremendous capacity to act, but that holds only *if* Cabinet can agree on a course of action. The convention in the Canadian Cabinet is one of consensus decisionmaking, with consensus defined by the Prime Minister. While that gives the Prime Minister some leeway, even the Prime Minister cannot easily direct a deeply divided Cabinet. Such a division was an unsurprising outcome of ensuring regional representation in Cabinet appointments in light of the regionalized nature of the Canadian economy discussed above. Moreover, since ratification, Canada has seen two consecutive minority governments at the federal level (one Liberal, one Conservative), reflecting a growing regionalization of the national party system, further undercutting the capacity of Canada's parliament to implement Kyoto.

#### Ideas

As Bernstein (2002, 217-8) has noted, "material interests in the form of economic costs and competitive concerns should militate against Canada pursuing an aggressive climate change policy. Its continued support of the Kyoto Protocol, especially in light of the U.S. withdrawal, is thus particularly puzzling for a rationalist or interest-based explanation." Bernstein turns to the influence of ideas to account for Canada's embrace of Kyoto. Similarly Smith (1998, 28) has stated, "It would appear that good environmental citizenship, or at the very least keeping up with the Americans, was the

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<sup>7</sup> These figures are based on the 2002 inventory.

primary determinant of the Canadian position” in negotiating its Kyoto commitment in 1997.

Keohane and Goldstein (1993) distinguish between ideas in the form of causal and principled beliefs.<sup>8</sup> As will be discussed further below, in the Canadian case both pointed toward ratification of Kyoto. Although ongoing debate about the validity of climate science (causal beliefs) has the potential to undermine ratification, a factor that was prominent in the US case, the absence of such a debate in Canada – where even the business community did not openly question the scientific basis for action to reduce greenhouse gas emissions, at least by the time of the lead-up to ratification -- meant that the reputation and credibility of science were an important force in support of ratification.<sup>9</sup>

Students of both domestic and international politics are increasingly attentive to the influence of principled beliefs or norms. In both settings, one can conceptually distinguish between two ideational motives: the desire to follow one’s own moral compass to “do the right thing;” and the desire to be perceived *by others* (according to their values) as doing the right thing. Although the two are difficult to distinguish in practice, not least because the public’s and policymakers’ values are likely to be quite similar, students of domestic policymaking have tended to focus primarily on policymakers’ own “good policy” motives, while international relations scholars have implicitly placed greater emphasis on countries’ seemingly reputational motives “to belong to a normative community of nations” (Keck and Sikkink 1998, 29). As discussed below, the ideational commitment of one man, former Prime Minister Jean Chretien, to ratification of Kyoto is critical to understanding Canada’s decision to ratify. However, the question of personal values vs. public reputation arises in considering Prime Minister Chretien’s motives for ratification. As discussed below, interviewees close to the former Prime Minister emphasized the former, while others in the media and academia have implied that the Prime Minister was motivated by a more self-interested desire for a legacy. It is, however, noteworthy that at the end of his career, when the Prime Minister was arguably less constrained by his own party and the electorate than ever before, he chose to pursue an agenda of liberal policies (not only Kyoto, but also campaign finance reform, legalization of same sex marriage, and decriminalization of marijuana), rather than big tax cuts. Whether that reflected his own commitment to unfinished business or a desire to be remembered fondly, it is telling that the legacy agenda was one of ideas rather than self-interested politics.

Bernstein has argued that a package of supportive causal and principled norms that he calls “liberal environmentalism” facilitated both international agreement on Kyoto (Bernstein 2001) and more specifically Canada’s commitment to the international

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<sup>8</sup> Goldstein and Keohane (1993) also consider a third category of idea, broad world views, which will not be discussed here, since participants in the Canadian debate did not fundamentally differ in their world views.

<sup>9</sup> 55% and 51% of Canadians were “very likely” to believe information about climate change provided by Canadian and international scientists respectively, in contrast to 20% and 14% who would be very likely to believe the federal and provincial governments (EKOS 2002).



agreement (Bernstein 2002). The norms associated with liberal environmentalism, according to Bernstein, include the polluter pays principle, embrace of market-based approaches such as emissions trading, and especially the concept of “sustainable development” as popularized by the Brundtland Commission (World Commission on Economic Development 1987). This combination of ideas, Bernstein argues, allowed for the reconciliation of the liberal economic commitment to markets and free trade with aspirations for environmental conservation, and in so doing offered the prospect of “win-win” opportunities at both the international and domestic level. Bernstein makes a compelling case that liberal environmentalism shaped the design of the Kyoto Protocol, particularly the inclusion of international trading mechanisms, and in particular facilitated Canada’s embrace of the Kyoto Protocol in 1997. However, the “win-win” promise of sustainable development could not be sustained as Canada approached ratification and development of an implementation plan, and thus confronted very real tradeoffs between winners *and losers*. In that sense, Canada’s ratification of Kyoto represents an even stronger test of the power of ideas than suggested by the have-your-cake-and-eat-it-too construction of sustainable development.

### The Road to Ratification

The issue of climate change attained a national profile in Canada relatively early when the International Conference on the Changing Atmosphere was held in Toronto in 1988. Since then, Canada’s commitments to action on climate change have reflected good intentions but decreasing ambitions, and even weaker results. Canada initially embraced the “Toronto target” of a 20% reduction in greenhouse gas emissions between 1988 and 2005. Two years later, the federal government’s high-profile Green Plan set a more modest target of stabilization of national greenhouse gas emissions at the 1990 level by the year 2000 (Government of Canada 2000). Canada undertook a similar, albeit non-binding, goal in the Framework Convention on Climate Change in Kyoto (FCCC) when it embraced the FCCC in Rio and ratified the treaty in a matter of months in December 1992.

Although Canada’s commitment to international efforts to mitigate climate change was launched by the Mulroney Conservative government, it was continued by the Chretien Liberal government, which won its first of three parliamentary majorities in 1993. The Liberal party’s 1993 election platform, popularly known as the “red book,” was drafted by the party’s environment critic (and future Prime Minister) Paul Martin. It one-upped the Conservative government by proposing a 20% cut below 1990 levels by 2005. However, when the Liberal party formed the government, they picked up where their predecessors left off, seeking – without success -- federal-provincial consensus on a national implementation plan. The most significant policy reform during this period was the creation of the Voluntary Challenge and Registry (VCR), a program to encourage voluntary greenhouse gas reporting and reductions by industry. Subsequent assessments have concluded that the VCR was singularly ineffective, with participants making no greater reductions than non-participants (Takahashi 2001, Hornung 1999). In the meantime, Canadian emissions continued to increase.

## The Kyoto Commitment

While Canadian governments of both parties were quick to offer bold promises on the domestic stage (if not to deliver on them), at the international level they joined after Rio with the US and other members of the JUSCANZ coalition (Japan, US, Canada, New Zealand) in resisting binding “targets and timetables” pursuant to the FCCC. As international discussions moved toward binding targets after the first Conference of the Parties (COP-1) in Berlin, Canada stood with the US in insisting on international flexibility mechanisms, including emissions trading, and credit for existing carbon sinks.

By the late 1990s, it was clear that Canada, like most other FCCC signatories, would not meet its voluntary target of stabilization at 1990 levels by 2000. In the lead-up to Kyoto, the federal and provincial Ministers of Energy and Environment agreed, with the exception of Quebec (which sought a more ambitious target), that Canada’s position going into Kyoto would still be to “seek to reduce” emissions to 1990 levels, but 10 years later, by 2010. In retrospect, there is debate between the federal government and the provinces as to whether that was merely the agreed starting position for international negotiations (the federal view), or whether it was a firm bottom line (the view of many provinces). In either case, the federal government clearly violated the spirit of the agreement when it announced a new position at the *beginning* of the Kyoto negotiations that Canada would return to 1990 levels by 2007 and reduce emissions to 3% below 1990 by 2010.

Much has been made of the fact that Canada, at the personal direction of the Prime Minister, chose a position that was more demanding than the US administration’s proposal announced in late October to stabilize at 1990 levels. Thus, Bernstein (2002, 222) and Smith (1998, 28) both conclude that the Prime Minister’s motive was to “one-up” the US. However, other press accounts at the time suggest a very different explanation. Prior to his decision, Prime Minister Chretien apparently received a phone call from President Clinton urging Canada to “push the envelope” in order to help bridge the gap and thus facilitate agreement between the polarized US and EU positions. Canada’s Ambassador to the United States, who happened to be the Prime Minister’s nephew, reportedly was called to the White House and given the same message (Gherson 1997, Spiers 1997).

The federal government’s unilateral departure from a hard-won federal-provincial consensus drew immediate objections from provincial officials and their Ministers upon their arrival in Kyoto. However, provincial members of the Canadian delegation were further outraged when Canada ultimately agreed to a commitment to reduce emissions to 6% below 1990 levels by 2008-2012. Officials admit that the target Canada accepted in Kyoto was beyond any scenarios previously contemplated; indeed, no economic analyses of a cut as deep as 6% had been undertaken in preparation for Kyoto. The explanation lies in the position of the United States, which moved its position significantly after Vice-President Gore’s intervention in Kyoto. One member of the delegation explained, a sentiment echoed by several others, “none of us expected the Americans to go as far as they did.” Canadian negotiators were directed by two federal Ministers leading the

delegation, who were in regular contact with the Prime Minister, to stay 1% behind the US position. Reportedly, the federal government's rationale was that Canada should receive credit in the form of a less demanding commitment, because its emissions are higher as a result of fossil fuel exports to the US. When the final alphabetical roll call began, Canada, knowing it would have to commit before the US, sought last-minute confirmation from US negotiators of their position. The federal Energy and Environment Ministers called the Prime Minister to secure his approval for a -6% commitment. (Provincial government representatives were not consulted; one subject explained that by that point in the Kyoto negotiations, federal-provincial relations were "poisonous.") Only after receiving reassurance that the US would commit to -7% (and that only after the US was reassured of Japan's comparable position), and after obtaining the Prime Minister's last minute consent, did Canada announced its position to the assembly.

Canada's commitment in Kyoto represented a careful balancing of ideational goals and economic self-interest. Canada was intent on matching the US (or at least close to it), even though its projections of significant emissions increases arguably more closely matched the position of Australia, which accepted a target of 8% *above* 1990 levels. Most of those interviewed explained that Canada's desire to keep up with the US was "highly political," implying that it was a question of public image rather than substance. Another official asked rhetorically, "Being good Canadians, can you imagine us letting the Americans get too far ahead of us?"

On the other hand, Canada was cognizant throughout the negotiations of the need to remain economically competitive with its largest trading partner. Contrary to the "one-upping the Americans" hypothesis, Canada did not beat the US in Kyoto, but rather argued for a 1% concession because it is on the more greenhouse-gas intensive end of that trading relationship. If the Prime Minister had ever been motivated by a desire to one-up the US in the lead up to Kyoto, symbolism took a back seat to economic self-interest during the actual negotiations. Indeed, one member of the delegation suggested that Canada's commitment to -6% was less a case of Canada seeking to keep up with than being pressured *by* the United States to match their commitment, lest American businesses be placed at a disadvantage. This alternate explanation is consistent with the Prime Minister's explanation to his provincial counterparts after the fact that Canada risked trade retaliation from the US if it did not move closer to the US position (Bryden and Greenaway 1997). Others explained that maintaining a position close to that of the US provided reassurance – "a comfort level" because "that's where the US was". Regardless of which was pressuring the other, both Canada and the US were reassured by their victory in security flexibility mechanisms, including international trading, the Clean Development Mechanism, and Joint Implementation.

### The National Climate Change Process

Quite fortuitously, just as the Kyoto conference drew to a close, a federal-provincial First Ministers Conference began the next day in Ottawa. The Kyoto issue was added to the agenda and also discussed at a private dinner between the Prime Minister and the Premiers. Although one might have expected fireworks given the

tension between the provinces and the federal government in Kyoto, the First Ministers emerged from the meeting mollified by three reassurances from the Prime Minister.<sup>10</sup> First, the Prime Minister committed that “no region [would be] asked to bear an unreasonable burden,” a phrase that would become something of a mantra for the provinces in the years to follow. Second, the leaders agreed to undertake a thorough study of the costs and benefits of implementation before proceeding to ratification. The combination of those two promises effectively left open the question of actual ratification of the Protocol. Indeed, the Prime Minister himself mused, “We presume it will be ratified. But we have seen some treaties in the past that have not been ratified,” a striking statement just days after Canada negotiated its Kyoto commitment (Ovenden 1997; Bryden and Greenaway 1997). Similarly, the federal Environment Minister subsequently reiterated that Canada would not ratify the Kyoto Protocol if compliance would hurt the economy.<sup>11</sup> Finally, the First Ministers agreed that development of an implementation plan as well as “any implementation and management of the Protocol” would be done in full partnership with provincial and territorial governments. The Alberta Premier, Ralph Klein, enthusiastically declared that particular commitment equivalent to a “provincial veto” over implementation (Ovenden 1997).

The federal and provincial energy and environment Ministers had been holding regular “Joint Ministers Meeting” (JMMs) on climate change since Rio. Those meetings took on increasing importance as federal and provincial governments committed to work together to evaluate Canada’s implementation options. At the April 1998 JMM, the Ministers established a National Climate Change Process, co-chaired, inauspiciously, by Alberta and the federal government. The Process was staffed by a Climate Change Secretariat housed within the federal government but reporting to the joint Ministers. The National Climate Change Process undertook a massive public consultation exercise involving some 450 experts and 225 stakeholders in 16 “issue tables,” each of which met many times over several years to examine a different aspect or sector of the climate change problem, an exercise one participant referred to as the “Air Canada subsidy program” (Rabe 2005). For four years after Kyoto there with few signs of federal-provincial discord, largely reflecting that, although there was much ongoing discussion, little progress was being made toward a credible plan to implement Canada’s Kyoto commitment. The Joint Ministers did agree to a range of voluntary and public spending measures in a National Business Plan issues in 2000 (National Climate Change Process 2002), but the plan only accounted (quite optimistically as it turned out) for one third (65MT) of the emissions reductions considered at the time to be necessary to meet Canada’s Kyoto target.

The nature of the challenge Canada faced to implement Kyoto and thus federal-provincial relations changed dramatically in the spring of 2001 when newly-elected US President George W. Bush announced that the US would not ratify Kyoto. Although opposition to ratification in the US Senate had long suggested that the US was unlikely to ratify, the President’s formal announcement forced a question that had largely been

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<sup>10</sup> The communiqué from the First Ministers Conference, including statements concerning Kyoto, is available online at [http://www.scics.gc.ca/cinfo/80003606\\_e.html](http://www.scics.gc.ca/cinfo/80003606_e.html).

<sup>11</sup> Brian McAndrew, “Canada cool on global warning,” *The Toronto Star*, 25 April 1998, A1.

sidestepped in Canadian discussions until that point. Since Canada's commitment in Kyoto had been predicated on the US' position, many both within the federal government and in provincial governments simply assumed that Canada would withdraw as well. That it did not do so in part reflected the US Administration's announcement in 2001 that it would be developing a plan of its own outside Kyoto.

While anxiously awaiting that plan, Canada and its "umbrella group" allies, most notably Japan, continued to press in international negotiations for concessions that would make it easier for them to comply. Of particular concern were more generous credits for forestry and land use practices. Although the umbrella group, including the US, had failed to achieve the additional flexibility they sought at COP-6 in the Hague, the remaining members of the coalition continued to press their case after the US' withdrawal at COP-6bis in Bonn in July 2001. The US' withdrawal from the Protocol meant that the international community needed *both* Japan and Russia to ratify in order to clear the hurdle that the treaty would only take effect if ratified by countries contributing at least 55% of Annex 1 country emissions. In that context, the European Union adopted a more generous stance toward the remaining members of the umbrella group in Bonn. Canada worked closely with Japan, particularly after their Prime Ministers forged a bond on the Kyoto issue at the concurrent G-8 Summit in Genoa. Once again, Prime Minister Chretien was intimately involved in Canada's negotiating position. In the end, both Japan and Canada won important concessions on carbon sinks. Indeed, Canada received credit for 30 MT for forestry practices already underway (i.e., for business as usual measures), which was *more* than it asked for going into the Bonn negotiations.

Canada was represented in Bonn by the Deputy Prime Minister, Herb Gray, who issued an upbeat statement when the negotiations concluded with a widespread perception that the parties had saved Kyoto in the wake of the US defection. When Japanese Prime Minister Koizumi issued a press release from the G-8 Summit, it was decided that Canada's Prime Minister should do the same. At the last minute, a staff member added a sentence to the end of the statement indicating that "the agreement reached this weekend in Bonn opens the way for Canada's ratification of the Kyoto Protocol next year, following full consultations with the provinces, the territories, stakeholders and other Canadians."<sup>12</sup>

However, the gains made at COP-6 satisfied neither critics within the federal government, particularly in the industry and natural resources departments, nor in the provinces, not least among them Alberta. As the federal Minister for Industry, Brian Tobin, explained, "There is a very strong consensus around the cabinet table ... that Canada must do nothing in competitive terms that would handcuff our capacity to compete around the world and with the United States" (Jaimet 2001). In response, after the Bonn deal was finalized at COP-7 in Marrakesh, Prime Minister Chretien insisted that "negotiation has not terminated yet." In particular, Canada renewed an argument, already many times rebuffed by the international community, that it should be receive credit for

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<sup>12</sup> Statement by the Prime Minister, 23 July 2001, [http://www.pco-bcp.gc.ca/default.asp?Language=E&Page=pmarchive&Sub=NewsReleases&Doc=kyotoprotocol.20010723\\_e.htm](http://www.pco-bcp.gc.ca/default.asp?Language=E&Page=pmarchive&Sub=NewsReleases&Doc=kyotoprotocol.20010723_e.htm).

exporting natural gas to the United States, on the grounds it could be exporting more greenhouse gas-intensive oil or coal.

When the White House's climate change strategy, announced in February 2002, offered little more than an affirmation of business as usual, the stakes were again raised again for Canada. At this point, several provincial governments moved from privately advising caution through intergovernmental channels to public opposition. The Alberta government led the charge, rallying other provincial Premiers to sign a letter to the Prime Minister calling on him to reconsider Canada's commitment to ratification. A week after President Bush's announcement, the Alberta Premier ambushed Prime Minister Chretien at a press conference in Moscow, where a delegation of Canadian politicians and officials were on an unrelated trade mission. Although some provincial Premiers who had signed the letter subsequently expressed discomfort with both Premier Klein's tactics and the wording of the letter (Fife and Foot 2002), the event ended the public pretence of federal-provincial cooperation in the National Climate Change Process.

The business community, which had made its position clear in the issue tables all along, also moved to a more public campaign the same month, when the Canadian Manufacturers and Exporters released a report in February 2002 estimating that ratification of Kyoto would cost Canada 450,000 jobs and \$40 billion (CME 2002). The federal government responded weakly that its own estimates would not be ready until April, but did manage to rally some estimates in March indicating that the upper range of job losses was *only* 300,000 (Chase 2002a).

Withal, the Prime Minister remained coy about Canada's intentions, stating only that the government "would like to sign the Kyoto agreement." The Environment Minister, David Anderson, undertook a cross-Canada speaking tour to make the case for ratification in the Spring. At the same time, however, Canada reiterated its demand for 70 MTs of clean energy export credits, almost one third of Canada's Kyoto commitment<sup>13</sup>. Among others, the Prime Minister made that case to envoys from Europe, including the UK Deputy Prime Minister and the EU President, who visited Ottawa in the Spring of 2002 to press Canada to ratify (Chase 2002a; MacCharles 2002). As with federal-provincial disagreement, divisions within the federal Cabinet and Liberal caucus also became increasingly public in 2002. Press reports indicated that a committee chaired by the Deputy Prime Minister, John Manley, was recommending a "Made in Canada" alternative to ratification, while the Chair of the caucus economic development committee reported to all Liberal MPs, that, "There are too many unknowns in the implementation of the Kyoto Protocol for Canada to have people fully support ratification at this point. ... The question here is, are we prepared to deal with climate change inside Kyoto or do we do it outside of Kyoto" (Toulin 2002a).

By this time, it was clear to federal officials that it would not be possible to achieve federal-provincial consensus on a national plan, not least because the most adamant opponent of ratification, the Alberta government, was co-chairing the process. The federal government thus reverted to a unilateral approach. In the first instance, it

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<sup>13</sup> House of Commons Debates Feb 26, 27

proposed to prepare and present a draft plan to the next meeting of the joint Ministers in May 2002. That plan drew heavily on economic modeling done as part of the national process, though one of the option packages presented was based on the federal government's own analysis. In a move designed to pressure recalcitrant provinces, the federal government publicly released its "discussion paper" in advance of the intergovernmental meeting (Government of Canada, 2002a). In the absence of provincial support for the discussion paper, the federal government launched public consultations across the country in the summer of 2002.

Debates concerning Kyoto in the summer of 2002 were situated within the context of a leadership struggle in the Liberal party. Tensions had been growing for some time between the Prime Minister and his long-time rival, Finance Minister Paul Martin. Martin and other leadership hopefuls were increasingly impatient for an anticipated announcement by the Prime Minister that he would be retiring from politics, thus opening the door to a leadership campaign. The tension between the two rivals came to a head when the Prime Minister perceived that his Finance Minister, widely considered to have majority support within the Liberal caucus, had begun to campaign too openly in the absence of a retirement announcement from Mr. Chretien. Depending on which account one accepts, Mr. Martin either resigned or was fired; in either case, the effect was that Mr. Martin left Cabinet and tensions increased within the Liberal caucus. As Martin, freed from the strictures of Cabinet, undertook a speaking tour to advance his own policy proposals, there was increasing pressure on the Prime Minister from a caucus eager for "new ideas." Matters came to a head at the annual caucus retreat in Chicoutimi in late August, where Mr. Chretien promised on the one hand a bold policy agenda in the months to come, and on the other, that after completing that agenda, he would resign in early 2004 to allow a leadership convention before the end of the government's mandate.

### Ratification of Kyoto

Almost immediately after the Chicoutimi caucus retreat, the Prime Minister left for the Johannesburg (Rio +10) Conference on Environment and Development in Johannesburg. In the months before Johannesburg, there had been speculation that the government would use the occasion to ratify Kyoto, spurring lobbying activity on both sides. A coalition of business associations, including the Canadian Council of Chief Executives, the Canadian Federation of Independent Business, the Canadian Manufacturers and Exporters, and the Canadian Chamber of Commerce, sent a joint letter to the Prime Minister expressing concern about the potential impact of a "hasty decision" on "Canada's economy and standard of living" (Toulin 2002b). On the other side, pro-Kyoto members of the Liberal caucus collected signatures from 96 (out of 172) Liberal members of Parliament and 23 Liberal Senators, calling on the government to ratify Kyoto, with or without clean energy export credits (Riley 2002). The Prime Minister refused to even say whether an announcement was forthcoming (Bueckert 2002a). However, Cabinet Ministers anxious about the rumours were reassured by the Prime Minister's Office that no announcement on Kyoto would be made in Johannesburg. The Environment Minister himself declared the chances that the Prime Minister would make

an announcement concerning ratification in Johannesburg to be “non-existent” (Delacourt 2002a).

It was thus a surprise to many, not least his own Cabinet, that Prime Minister Chretien announced in his speech to the plenary in Johannesburg that a resolution to ratify Kyoto would be placed before Canada’s Parliament by the end of the calendar year. Only a handful of people of officials knew in advance what the Prime Minister was planning to say in Johannesburg. The decision appears to have been made, or at least relayed by the Prime Minister to his officials, en route to Johannesburg, prompting much speech rewriting on the plane. However, although the Prime Minister’s speech was widely reported as a decision to ratify, that was not exactly what was promised. In Canada, the decision to ratify international treaties rests with Cabinet, not Parliament. At the time of the Prime Minister’s speech, no decision on Kyoto had been made by nor even come to the agenda of Cabinet, which was relatively evenly divided on the issue. However, with the recent receipt of the backbenchers’ letter calling for ratification, and knowing that a resolution would be guaranteed the support of both the Bloc Quebecois and New Democratic Party in the House even if there were Liberal dissenters, the Prime Minister was confident that a resolution would pass, in turn forcing Cabinet’s hand to ratify. The plan to place a resolution before Parliament thus was not so much an announcement of a Cabinet decision to ratify as a strategy to circumvent Cabinet dissent.

The Prime Minister’s announcement did not lay the issue to rest, but rather stirred the debate. The Prime Minister himself continued to insist, at least in the early fall, that ratification could only proceed if Canada received credits for its clean energy exports (Toulin and Jaimet 2002). The business community formed a new Coalition for Responsible Energy Solutions, which, among other activities, placed a series of full-page newspaper ads across Canada, arguing that ratification of Kyoto would “place Canadian business at a severe disadvantage relative to the United States,” result in “higher prices and higher taxes,” and required Canada “to make payments to countries with no targets.” For its part, the Alberta government spent almost \$2 million on a media campaign opposing ratification, and the Premier and other Alberta officials also toured the country to make their case to the public and governments of other provinces.

The controversy surrounding ratification in the fall of 2002 centered on three issues: whether there would be a plan for implementation before ratification; what it would cost; and whether provincial governments had been adequately consulted. Development of the federal plan was greatly hindered by conflict between federal departments, particularly between Natural Resources Canada, which tended to defend the fossil fuel sector, and Environment Canada. Amid this “state of civil war”, the leak of a Cabinet document estimating implementation costs of \$16 billion and up to 200,000 jobs was seen as an effort to sabotage ratification (Toulin 2002c; Jaimet 2002a). The issue was not only one of how to achieve ratification with the least economic and political cost, but also what to do about the 70 MT of clean energy credits Canada had been counting on but which looked increasingly unlikely to be approved by other parties to Kyoto. Although the Minister of Natural Resources promised that a full plan and costing for ratification would be presented to the provinces in late October (Toulin and Jaimet 2002),



the federal government was backtracking by late September, when the Prime Minister indicating that the plan would evolve over the next 10-12 years (Toulin 2002c). Cabinet Ministers were advised by the centre to stop talking about “the implementation plan” since the government did not have one (Toulin 2002c).

The internal debate was exacerbated by the spectre of Paul Martin, now sitting as a mere back bencher, but one whose position as heir apparent to the leadership was of great interest to both the Liberal caucus and the media. Fearful of risking support for their candidate in Western Canada, Mr. Martin’s team adopted a strategy of “studied ambiguity,” attempting to convey Mr. Martin’s support for action on climate change on one hand while on the other criticizing the ratification process. Mr. Martin thus insisted that Canadian needed to know exactly what the government was planning and what the plan would cost before ratification (Fraser 2002). Mr. Martin’s representatives variously conveyed that he was uncertain whether to support ratification (Frank 2002), “inclined to vote in favour” but that “it would be preferable to wait” for a broader national consensus (Alberts 2002), and at one point that Mr. Martin might vote for ratification since Canada could still choose not to comply, at which point Mr. Martin was forced to clarify his position that Canada is, in fact, bound by international treaties it ratifies (Delacourt 2002b; Coyne 2002).

Both the broad range of measures necessary to address climate change and the particular jurisdiction of the provinces with respect to natural resources made clear that although the federal government had clear authority to *ratify* Kyoto unilaterally, it would be very difficult for the federal government to *implement* the treaty on its own. However, it was equally clear that the federal government would not be able to achieve provincial consensus in support of ratification. Indeed, in the fall of 2002, the federal government’s proposal to ratify Kyoto drew solid support from only Quebec, Manitoba, and two territories (Nunavut and the Northwest Territories), the latter with just 70,000 residents between them. In contrast, the Premier of Ontario, which represents almost 40% of Canadians, stated that his province would not support Kyoto if it killed “even one job” (Frank 2002). The federal government responded by proposing to negotiate bilateral agreements with individual provinces, a strategy that both allowed it to move forward with at least some provinces and that held the potential to move those sitting on the fence one by one with the promise of federal funding (Calamai 2002). Those leading the charge, on the other hand, sought to keep the debate in a multilateral setting, where the norm of consensus would not only prevail but for all intents and purposes would be unattainable.

On the initiative of Alberta, Saskatchewan, and Nova Scotia, all provincial and territorial premiers signed a statement declaring the federal plan “inadequate” and calling instead for a “national plan.”<sup>14</sup> (In the context of Canadian federalism, the reference to a “national” plan was code for a consensus-based federal-provincial plan as opposed to unilateral “federal” plan.) It is noteworthy that the statement did not oppose ratification of Kyoto, which was necessary to gain the support of the Premiers of Manitoba and

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<sup>14</sup> The Northwest Territories “reserved its position on the adequacy of the federal plan.” The full statement can be viewed at [http://www.scics.gc.ca/cinfo02/830767004\\_e.html](http://www.scics.gc.ca/cinfo02/830767004_e.html).

Quebec. The Premiers called for a First Ministers Conference before ratification, but on the precondition that the Prime Minister first accept the 12 principles set out in their joint statement, including that “no region or jurisdiction shall be asked to bear an unreasonable burden,” that “no Province or Territory [would bear] the financial risk of federal climate change commitments,” and that “benefits from assets such as forest and agricultural sinks must accrue to the Province and Territory which owns the assets,” and that “the plan must incorporate appropriate federally funded mitigation of the adverse impacts of climate change initiatives.” When Prime Minister Chretien balked at the last three of these (Paraskevas et al. 2002), the proposed First Ministers Conference did not go ahead. The provinces subsequently unanimously cancelled a Joint Ministers Meeting in late November (Paraskevas 2002a), effectively terminating the multilateral National Climate Change Process.

The federal government finally released its much anticipated “Climate Change Plan for Canada” in late November (Government of Canada, 2002b). With explicit reference to the provinces’ and territories’ October statement, the plan set out a number of principles, including a commitment to “a made-in Canada approach based on collaboration, partnerships and respect for jurisdiction,” and “no region bearing an unreasonable burden.” Based on an anticipated gap of 240 MT in 2010, the plan proposed to rely on measures already underway for 80 MT, negotiated voluntary “covenants” with “large final emitters” (industry) for 55 MT, a voluntary agreement with the auto industry to improve fuel economy, various spending programs in the form of joint projects with provinces, support for technological innovation, and incentives for individual Canadians, and international purchase of up to 10 MT. The plan acknowledged a shortfall of 60 MT, equal to ¼ of the total commitment, for which measures had yet to be developed. (This was roughly the amount for which Canada had hoped to achieve clean energy export credits.) In terms of costs, the plan did not report a dollar figure, but rather indicated that “In the most likely scenario, Gross Domestic Product (GDP) is reduced by only 0.4 percent in 2010. In other words, rather than growing by 18 percent between 2002 and 2010, the economy would grow by around 17.6 percent. Employment would increase by 1.26 million jobs instead of 1.32 million.” The GDP figure would translate to roughly \$4 billion, not just in 2010, but *per year* for each of the 5 years of the Kyoto commitment period, and presumably continuing thereafter in order to maintain compliance, a fact that neither the plan itself nor press coverage of it made clear to Canadians.

What is perhaps most striking about the federal implementation plan is its generality. There was a call to negotiate covenants with industrial sectors, but no specifics as to which facilities would be expected to reduce their emissions nor by how much. There was heavy reliance on public spending, but no specific budgetary commitments for any particular projects (though some commitments had already been made that were accounted for in the 80 MT allowance for ongoing measures). There were proposals for various measures, such as revisions to building codes, that arguably could only be undertaken by provincial governments, but no commitment to do so by the provinces. Almost five years to the day after Canada agreed to a 6% cut below 1990

levels in Kyoto, and after a massive national consultation exercise, the federal government effectively released a plan to develop a plan.

Through the fall, members of Mr. Chretien's caucus were remarkably candid concerning their ambivalence with respect to Kyoto. The Minister of Natural Resources, Herb Dhaliwal, who was one of two lead Ministers on the file, stated in September, "I think Kyoto is going to get a little bit more heated than people think. I don't know how much support is going to stick around in Ontario once the Ontario MPs realize it affects their ridings" (Whittington 2002). The Deputy Premier, Anne McLellan, who was the lone Liberal MP from Alberta, refused to say how she would vote on the House resolution, but stressed that implementation must not "undermine or impede" growth of Alberta's oil sands (Paraskevas 2002b). The Finance Minister appointed to replace Mr. Martin, John Manley, openly mused that it would be alright to ratify but not comply, noting, "The bailiff isn't going to arrive to seize our property. There is no international Kyoto court that can seize our assets or force us to pay a fine" (Coyne 2002). Interestingly, when asked about divisions within his *Cabinet*, the Prime Minister responded, "my party *caucus* is very much in favour of Kyoto. I have received petitions from MPs, and they have spoken to me about this for some years. I have listened to the caucus."<sup>15</sup> Although almost three quarters of Liberals backbenchers had signed the caucus letter in support of ratification in August, some of those were reportedly wavering in the fall (Whittington 2002). A poll by the Ottawa Citizen newspaper revealed that 74 Liberal backbenchers were committed to ratification, one opposed, and 7 undecided, while 48 others declined to respond (Jaimet 2002b).

While it was highly likely that the Kyoto resolution would pass the House, if necessary with the support of Bloc Quebec and NDP MPs, there was nonetheless potential for considerable embarrassment and thus loss of future influence for the Prime Minister. In mid-November, the government had been forced to declare a motion concerning parliamentary reform offered by the Opposition Alliance to be a free vote, after it became clear that the motion would pass with the support of almost half of Liberal backbenchers, a move many perceived to be orchestrated by Paul Martin (Harper 2002). With the position on Kyoto not only of many backbenchers but also several of his front bench members uncertain, the Prime Minister declared the Kyoto resolution to be a matter of confidence, an unusual measure since resolutions are usually free votes, on the disingenuous grounds that the government committed to ratification in the September 2002 throne speech.<sup>16</sup> The Prime Minister also told his caucus that he would refuse to sign nomination papers of dissenters (Dawson 2002; Hebert 2002; Spector 2002). Dissenters grudgingly fell back into line, though both Mr. Martin and Ms. McLellan clearly indicated in their speeches to the House of Commons that their support was conditional, in McLellan's case on "no caps on growth of any sector of our economy."

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<sup>15</sup> (Debates, \*, my emphasis.

<sup>16</sup> This was somewhat disingenuous since the throne speech merely stated that, "Before the end of this year, the government will bring forward a resolution to Parliament on the issue of ratifying the Kyoto Protocol on Climate Change." In other words, the throne speech did not commit to ratification. The Speech from the Throne to open the 2<sup>nd</sup> session of the 37<sup>th</sup> Parliament is available online at <http://www.parl.gc.ca/information/about/process/info/throne/index.asp?lang=E&parl=37&sess=2>.

On December 10, 2002, the House of Commons passed a resolution calling “upon the government to ratify the Kyoto Protocol on climate change” by a vote of 195 to 77. The motion received unanimous support of all Liberals present for the vote, though 14 were absent, as well as the support of the Bloc and NDP. The Prime Minister declared, “It’s a great day for the environment and a great day for the future of our kids.” The motion quickly passed in the Senate on December 12, and the following day the decision to ratify was made by Cabinet without debate, all Ministers having already voted in support of the resolution in the House. The Environment Minister personally delivered Canada’s ratification papers to the United Nations in New York on December 17, 2002.

### The Challenge of Compliance

When the high drama of ratification subsided, very little had changed. Canada was left facing the same host of challenges to implementation: a fossil-fuel intensive economy, federal-provincial conflict, and interdepartmental tensions within the federal government.

Little noticed and barely reported by the media (with the exception of the business pages) in the aftermath of ratification was a low-key announcement by the Natural Resources Minister that the federal government had committed to industry that it would not have to pay abatement costs of more than \$15/ton nor make reductions greater than 15% below the projected business as usual level for 2010.<sup>17</sup> The announcement was based on a December 18, 2002 letter from the Minister to the Canadian Association of Petroleum Producers (Dhaliwal 2002; Chretien nd), though the guarantees contained in that letter were extended by the government to other “large final emitters.” The commitment, though announced after ratification, was in fact part of the ratification package. Negotiations with the oil industry were personally undertaken by the Clerk of the Privy Council, Canada’s top public servant and the Prime Minister’s own deputy. The magnitude of the concession also was little noticed. A commitment that industry would not have to pay more than \$15/ton flew in the face of a March 2002 analysis conducted for the National Climate Change Process, which found that the marginal abatement cost would be \$150/tonne to achieve 180 MT of domestic reductions, and \$250/tonne for 200 MT (Bataille et al. 2002)! Canada’s projected Kyoto gap at the time was 240 MT, only 10 MT of which were expected to be purchased in the form of international credits.

Arguably more problematic but less noticed was the 15% guarantee. At the time, it was anticipated that Canada would need to make a 30% reduction below projected 2010 emissions to meet its Kyoto target. An early draft of the national plan in September

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<sup>17</sup> To be more precise, the government committed to require no more than a 15% reduction in emissions intensity (relative to production) below the anticipated 2010 level. The distinction between emissions and emissions intensity would not matter if the government’s emissions projections turn out to be correct. However if the projections underestimated actual emissions in 2010, a not inconceivable outcome given that the projection had been increasing by 20 MT per year up to that point, the emissions intensity commitment meant that any responsibility for additional reductions would lie with the government, not the industry.

had already proposed a concession to industry in require it to make only a 25% cut (Bueckert 2002b). However, the final plan reflected the 15% commitment negotiated with the Canadian Association of Petroleum Producers in the fall. The LFEs represent about half of Canada's emissions inventory. If one considers that another quarter of the inventory consists of the transportation sector, which does not turn over frequently (meaning that improvements in fuel efficiency take can years to be realized on a fleet-wide average), one is soon left with the implication is that a reduction of greater than 100% would be needed from the remaining sectors. The one exception would be if the federal government literally paid industry to make reductions greater than 15%, an option discussed further below.

As noted above, much work remained to put flesh on the bones of the federal plan. However, progress was slow in the dysfunctional federal family. Natural Resources Canada (NRCan) and Environment Canada shared responsibility for implementation, a situation one official likened to two people sharing the steering wheel of a car. However difficult that might be when the two are headed in the same direction, it was virtually impossible given the two Departments' very different perspectives on Kyoto. NRCan is a department that has never had regulatory responsibilities; rather it primarily conducts research and analysis in support of the natural resource sectors. Staff often refer to natural resource industries as their "clients," a perspective typically adopted in short order by NRCan Ministers. Thus, Minister Herb Dhaliwal, even while leading negotiations with the auto industry on fuel efficiency, indicated that he had no plans to replace his own family's two SUVs with more fuel-efficient vehicles (Aug 13, 2002). One of the first pronouncement by his successor in the portfolio, Jake Efford, was that the first principle governing any decisions by the government would be that "the [oil] industry must grow" (Brethour 2004). Not surprisingly, NRCan was sympathetic to industry concerns about competitiveness, and tended to adopt a more pessimistic perspective on both domestic costs and the price of international credits. Environment Canada, in contrast, is a regulatory agency that would have preferred to regulate, rather than negotiate voluntary agreements with, both the automobile industry and large final emitters. It is indicative of the federal government's reluctance to impose costs on business that the lead for both negotiations was given to NRCan, while Environment Canada took the lead in climate science and international negotiations.

When Prime Minister Chretien retired in December 2003, as anticipated his successor as Liberal leader and Prime Minister was Paul Martin. Upon assuming office, Prime Minister Martin was advised that Canada could not comply with its Kyoto commitment domestically. In the face of uncertainty concerning Russia's ratification, and thus the fate of the Protocol, Mr. Martin would only say that "you need a plan to determine whether in fact you can meet those targets... And we have not yet developed that plan, certainly not to my satisfaction" (Chase, Mackinnon, and Brethour 2004). Mr Martin called an election in the spring of 2004, which reduced the Liberals to a minority government.

The stalemate within the federal government was broken by an unlikely external actor. In early 2004, an advisor of Environment Minister, Stephane Dion, received a visit from a staff member from the US-based Rockefeller Brothers Fund. The Fund was keen

to advance climate change policy in the US, and saw Canada's implementation as an important opportunity to demonstrate the feasibility of action to the US Administration. A plan was hatched for a weekend retreat at which a select group of federal and provincial officials met with counterparts from Germany, the UK, and Massachusetts at the former Rockefeller estate in Pocantico, New York.<sup>18</sup> The group produced a two-page vision document. However, Dion's advisor realized that it would not be possible to advance that vision within the deeply divided federal government. In response, within weeks Rockefeller Brothers produced a \$60,000 grant which was funnelled through the Sage Foundation in Canada to hire activist Louise Comeau to develop the plan.

Comeau placed numerous calls to an acquaintance in the Prime Minister's Office, offering to be his unpaid "sherpa" on climate change. Comeau also brought colleagues from think tanks and NGOs to brief PMO staff on the details of Kyoto and emissions trading. Eventually, Comeau and PMO staff began to draft a new climate change plan in the fall of 2004. Comeau provided expertise on the climate change file, including using Rockefeller funding to commission economic analyses from outside the government. Constrained by the 15/15 guarantee to industry, she proposed to rely almost exclusively on government expenditures to achieve the Kyoto goal, through a new Climate Fund that would offer to compensate business for voluntary reductions (including any LFE facilities exceeding the 15%) as well as purchasing over 100 MT of international credits. For their part, Comeau's coauthor in the PMO knew from years of experience how to package a proposal for the Prime Minister, who was reluctant to commit to even the most laudatory goals until he could see a clear path forward to achieve them. A key part of the strategy thus was to demonstrate opportunities to "reprofile" unspent climate funds from previous budgets to the new Climate Fund (Project Green draft \*).

The draft "Project Green" was ready in time to send home with the Prime Minister on his Christmas break. The Prime Minister enthusiastically called his staff the day after reading the proposal, and after the break brought in the Clerk to move forward the proposal. The Clerk in turn distributed the draft to the Deputy Ministers of Environment Canada and NRCan, whose departments offered characteristically opposite reactions. NRCan was highly critical of the analysis, considering the proposal overly optimistic in its projections of the costs to meet what by then (with unprecedented oil prices driving a boom in Alberta's oil and gas industry) was estimated to be a 270 MT shortfall. Environment Canada for its part embraced the proposal with enthusiasm, not least because many of its department's ideas had been built into the draft. With "the boss" clearly on side, Environment Canada's star was on the rise and the Department exercised growing influence over future drafts of the plan. Once again, internal documents were leaked to the media discrediting the prospects for compliance, in one case noting that with continued emissions growth, the Kyoto gap was now closer to 300 MT, up 25% from the estimate just two years earlier (Chase 2005b), and in another that the plans for the 80 MT of reductions announced in 2000 had produced "at most" 18 MT of reductions (Chase 2005a). The conflict between Environment Canada and NRCan was not merely a

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<sup>18</sup> The retreat to "develop a Canadian green house gas reduction plan" was held February 20-22, 2004. Apparently done their bit to resolve Canada's policy problems, the following week the Fund hosted a dance theatre workshop at the same site.

bureaucratic turf war, but a clash of philosophies. Environment Canada was keen to move forward within the international regime, drawing on a combination of willingness to purchase large quantities of international credits and optimism about the responsiveness of the Canadian economy to the lure of subsidies. NRCan's response, in contrast, was grounded in economic models suggesting much higher marginal abatement costs than assumed by Project Green. Environment Canada's optimism confronted NRCan's (and the Department of Finance's) detailed economic analysis.

With Russia's ratification in late 2004, the Kyoto Protocol was scheduled to take effect in February 2005. Although the intention had been to unveil the new plan on the date the Protocol became binding, interdepartmental conflict once again delayed the process. Instead, the federal government announced on the day Kyoto took effect that it would host COP-11 (and MOP-1, the first meeting of the parties to Kyoto) in Montreal in December 2005. Although the plan was not finalized, a number of measures from Project Green made it into the March 2005 budget, including \$1 billion for the Climate Fund.

By the time of the 2005 budget, a decision had been made that negotiated covenants would not be workable given the number and diversity of LFEs. An alternate plan to develop stand-alone legislation would have required months if not years for passage, which would not have been guaranteed in any case given the government's minority status and the opposition Conservative Party's strong opposition to Kyoto. A decision thus was made to establish a cap and trade program using regulatory authority already available under the Canadian Environmental Protection Act (CEPA). At that point the LFE program was shifted from NRCan to the Environment department, which is responsible for CEPA. In order to regulate a substance under CEPA a determination must be made that the substance is "toxic," which the Act defines as entering "the environment in a quantity or concentration or under conditions that ... may have an immediate or long-term harmful effect on the environment or ... may constitute a danger to the environment on which life depends." Given both the weight of scientific evidence and the generosity of the definition, greenhouse gases could easily qualify as "toxic" under CEPA. However, CEPA's definition of toxic does not coincide with the popular understanding of the term. Regulated industries in particular resent the stigma of having their products or byproducts declared "toxic." A controversy had thus erupted in 2004 when Environment Canada proposed to list road salt, a substance that is ubiquitous in harsh Canadian winters, as toxic under CEPA. After Cabinet rejected that proposal, there was particular concern about the optics of declaring carbon dioxide – "a substance that babies exhale" – toxic under CEPA.

The solution devised was to make a minor change in CEPA so that greenhouse gases could be declared "harmful" rather than "toxic." The proposed change was included in the 2005 budget bill, since the government believed that the opposition would not risk forcing an election, particularly after negotiating a detailed budget agreement with the government, over a cosmetic amendment. The government miscalculated. The Conservative Party leader, Stephen Harper, declared the amendment a "back door" attempt to impact a "carbon tax," and threatened to withdraw his support for the bill, which would have defeated the government. At the same time, Canada's leading

environmental groups objected that the amendment was not only unnecessary to regulate greenhouse gases, but also that it was unduly risky to amend legislation already upheld by the Supreme Court. In the end, Mr. Martin blinked, withdrawing the amendment (Iverson 2005; Bueckert 2005), though the government proceeded to list greenhouse gases as “toxic” under CEPA later in the year.

The quid pro quo, however, for the regulatory approach was an additional concession to industry. Although obtusely worded in the final plan, the effect was to reduce the LFE target from 15% to 12%,<sup>19</sup> with a further option for facilities to invest in a Greenhouse Gas Technology Investment Fund expected to yield reductions only after 2012. The combined effect was a guaranteed reduction in emissions intensity of just 10% by the Kyoto commitment period.

Negotiations with the auto industry also came to a head in March 2005. Although the federal government sought a 25% reduction in emissions from new vehicles by 2010, the industry wanted to commit to an equivalent reduction in megatonnes, rather than percentage terms, so as not to undermine its legal challenge against California’s fuel economy standard and its arguments against proposed changes to national fuel economy standards in the US. The federal government conceded the point, even though Canada has historically been a free rider on previous US fuel economy standards. Another major concession (other than not facing a binding regulation in the first place) won by the industry was an agreement that the industry would not be held responsible for fleet composition. As one official explained, “it’s not their fault if people want to buy SUVs.” Although NRCan was committed to a voluntary agreement, the Environment Minister (with backing from the Prime Minister) took a hard line in threatening a regulation at the last minute, winning a last minute concession from the industry and achieving a voluntary agreement for a 5.3 MT reduction.

The new federal plan, Project Green, was finally released in April 2005 (Government of Canada 2005). The first page of the plan notes that it “uses market mechanisms to tap GHG reduction potential across the economy.” However, the use of the term market mechanisms is very different from its standard usage in environmental policy debates. To be sure, the plan proposes a cap and trade regulatory program for LFEs, but assuming that firms avail themselves of the opportunity of the Technology Investment Fund, that regulatory approach accounts for only 13% of the anticipated 270 MT.<sup>20</sup> The quasi-regulatory agreement with the automobile industry accounts for another 2% of the total. Considering that these industry and transportation account for three quarters of Canada’s inventory, the implication if those sectors made only those reductions is that some 230 MT of reductions would be needed from sources that collectively account for only 170 MT (in 2003) of Canadian emissions to start with.

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<sup>19</sup> The basis for the reduction was that some processes inevitably produce greenhouse gases, with no opportunity for reductions other than curtailing production. Although such facilities could, in theory, avail themselves of the cap and trade program, “process emissions” were granted a reprieve on reductions (0%).

<sup>20</sup> The 270 MT figure seems optimistic in light of reported federal government analyses suggesting a need for upward of 300 MT reductions. It is noteworthy that the annual emissions inventory ceased to report projections to 2010 in 2005 (i.e., in the 2003 inventory update.)



The solution to this dilemma adopted by the plan was a massive public spending program, to induce change not only in unregulated sectors but also to pay for any additional reductions by industry and the public sector. In that respect the 2005 plan was predicated on somewhat different philosophy than the 2002 plan. Rather than funding a host of small programs offering subsidies to individual consumers for products such as home appliances, solar roof panels, and fuel efficient vehicles, Project Green establishes an over-arching Climate Fund. The idea is that producers or retailers will approach the fund with proposals for offsets at a more aggregated level. This is the “market-based” vision of the plan in two respects: the offer of subsidies via the Climate Fund would unleash the innovative potential of the market, while also creating “liquidity” in offsets for the domestic carbon market. The latter argument overlooks, however, that the federal government is, for all intents and purposes, the only buyer in the market, hardly the scenario foreseen by advocates of emissions trading.<sup>21</sup> Moreover, reliance on tax expenditures to purchase credits violates the “polluter pays principle” that is fundamental to the emissions trading approach.<sup>22</sup>

Public expenditures, for instance in the form of tax credits, joint investments with provincial government in infrastructure projects, and purchase of carbon offsets, account for a full 80% of reductions proposed by the 2005 plan.<sup>23</sup> That also explains the explosion in the estimated costs to taxpayers, from \$1.5 billion projected by the 2005 budget to up to \$12 billion only a few weeks later in Project Green.<sup>24</sup> Even then, the average costs seem extremely optimistic at approximately \$11/ton, when compared to previous analyses of abatement costs in Canada and the current cost of emissions credits in international markets.<sup>25</sup> Moreover, what the plan does not make particularly clear, and the media did not catch, is that the cost of \$12 billion, even if accurate, would only guarantee compliance for the 2008-2012 commitment period. An ongoing investment, presumably at the roughly the same rate of \$2.4 billion per year, either by the private or public sector would be needed to maintain compliance thereafter.

Project Green is also conspicuously silent on projected purchases of international credits. Although the plan allows that the Climate Fund could purchase either domestic

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<sup>21</sup> It is also the case that some of the LFEs may seek to purchase offsets, albeit in much smaller quantities. However, given the \$15/ton guarantee to LFEs, and the federal government’s role in the climate fund, that situation presents significant challenges to avoid double counting, rather than substantial efficiency gains.

<sup>22</sup> Government officials argue that the outcome will be equivalent since consumers will still receive market signals, in this case because “clean” goods will be rendered less expensive, rather than because “dirty” goods will be made more costly. The subsidy is merely a negative tax. While that is true, it ignores the efficiency losses in the form of administrative costs and, more importantly, incentives for firms to exaggerate the costs of their emissions reductions to the (less well-informed) government buyer.

<sup>23</sup> Although the reductions associated with expenditures are presented in terms of fairly broad ranges, the reductions associated with other policy instruments have much more specific estimates. One can thus calculate the expenditure contribution by subtracting the contribution of LFE regulations (13%), the auto sector agreement (2%), carbon sinks (3%) and the “one tonne challenge” to individual Canadians (2%), thus leaving 80%.

<sup>24</sup> See Annex 1 of Government of Canada (2005).

<sup>25</sup> This assumes that the federal government purchases or otherwise pays for 80% of credits, a total of 1080 MT over 5 years, at a total cost of \$12 billion.

or international credits, unlike the 2002 Plan no estimate was provided in 2005 of the anticipated extent of reliance on international purchases. The draft plan estimated purchases of over 100 MT; officials admitted that there was a numerical estimate built into the plan but refused to say what that was.<sup>26</sup> The plan's, and their, silence on that critical issue speaks volumes to the dominant perception in Canada of international trading in carbon credits as a matter of "sending Canadian taxpayers' money overseas and getting nothing in return."

That perception was, to a considerable degree, advanced by the Conservative politicians who were elected to a minority government in January 2006. The party, and its leader, with strong roots in Alberta, has been highly critical in the past of Kyoto ratification and of Canada's implementation plan. However, if the Conservative party ever hopes to win a majority, it will need to solidify and expand its gains in Ontario and Quebec, where Kyoto is particularly popular, including with the current provincial governments.<sup>27</sup> During the campaign, the new Prime Minister suggested that he would abandon Canada's Kyoto commitment, but since the election, the Conservatives have indicated only that they will build a new "made-in-Canada" plan while remaining a party to the international treaty.

### Explaining Ratification

The Canadian case suggests two very different outcomes to be explained: a bold decision to ratify Kyoto in 2002 despite the withdrawal of the US and the ensuing opposition of the business community and the provinces; and Canada's apparent inability to take meaningful actions to actually reduce its emissions in practice.

Canada's ratification of Kyoto cannot easily be explained by the politics of self-interest. Indeed, it is hard to think of another case in which the federal government undertook major policy reforms so strongly and unanimously opposed by the business community. Not only did business groups opposed to Kyoto have access and resources unmatched by the environmental community, but more importantly, they spoke with the authority of the Canadian economy. A threat of the loss of 450,000 jobs, even if based on a worst-case scenario, could not be taken lightly by any government elected by the people holding those jobs. On the other hand, there was widespread public support for ratification, and government officials and federal politicians were keenly aware of that support. Indeed, for a period of two months before the ratification vote in December 2002, the federal government commissioned *daily* tracking polls. Staff in the PMO monitored those polls and took consolation in the fact that public support declined only by 5% despite the onslaught of criticism from the business community and provincial

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<sup>26</sup> There was at one point a bizarre exchange in the House of Commons where a Conservative MP, citing the original draft of Project Green, asked the Minister to confirm that the federal plan would require the purchase of over 100 tonnes/year at a cost of \$2.7 billion per year. The Environment Minister responded that that was "completely untrue," but rather than challenging the figure of 100 tonnes offered that one can purchase credits in the CDM market for a "very affordable" \$38/tonne, a price higher than supposed by the question. (Debates, April 4, 1005)

<sup>27</sup> The Conservative government that opposed Kyoto in Ontario at the time of ratification has since been replaced by a Liberal government that committed to phasing out the province's coal-fired electric utilities.

governments. However, those close to the Prime Minister believe that Mr Chretien viewed the polls as a source of reassurance *after* his Johannesburg announcement, rather than the driving force for his decision. Moreover, the fact that caucus and Cabinet were so deeply divided, despite apparently public support for ratification, suggests that public opinion hardly provided a clear-cut case for ratification.

The challenge of ratification was reinforced by two political institutions. Within Canadian federalism, provincial governments were not only fiercely protective of their constitutional authority with respect to natural resources but, more importantly, fiercely protective of their local industries. The regional nature of Canada's political economy rendered federal-provincial consensus unattainable. Much has been made, both by scholars and the provinces themselves, of the federal government's unilateral embrace of a Kyoto target beyond that agreed to by the provinces in advance of Kyoto. That created a very real sense of betrayal that damaged federal-provincial relations but also a convenient excuse to blame the federal government for intergovernmental conflict (Stilborn, 2003). However, contrary to Smith's (1998, 29) assertion that the federal position in Kyoto went "well beyond the fed-provincial agreement," if one considers the trajectory of business-as-usual emissions, the difference between the provincial and federal position in 2010 amounts to -29% rather than -35%. The real divide between provinces opposed to Kyoto and the federal government was not the last 6%, but the first 29%.

A second institutional obstacle was the divided Cabinet, which is not surprisingly in light of the emphasis placed on regional representativeness in Canadian Cabinet-making, but undermined the capacity for decisive action of the federal government.

We thus turn to ideas. Bernstein has argued that the fact that Canada followed the US to -6% after Vice-President Al Gore's intervention in Kyoto is indicative of "concern with reputation despite significant domestic constraints." That statement underestimates the degree to which Canada's domestic constraints were mitigated as long as US was going as far, indeed slightly farther, than Canada. However, after its major trading partner rejected Kyoto, Canada's ratification provides even stronger evidence of the influence of norms. In particular, it was the norms of one individual, Prime Minister Chretien, that dominated the process from beginning to end. Mr. Chretien personally approved Canada's Kyoto target, actively engaged with the international negotiations seeking greater flexibility with respect to carbon sinks and energy exports, decided what position he announce on behalf of Canada in Johannesburg, orchestrated a parliamentary resolution to overcome Cabinet divisions, and secured victory by threatening a snap election prior to the House resolution.

When asked what motivated Mr. Chretien, to a one his colleagues and senior officials pointed to principled beliefs, offering remarkably close variations on the words of one of Mr. Chretien's advisors that, "he simply believed it was the right thing to do." Subjects emphasized that Mr. Chretien had tremendous respect for science, and saw climate change as a fundamental threat to the planet: "I think he wondered what planet [the critics of Kyoto] thought they were going to live on." Many also pointed to Mr.

Chretien's commitment to multilateralism and noted the influence of key G7 and G8 meetings in reinforcing the Prime Minister's resolve.

Mr. Chretien was not a politician widely known for pursuing bold policy initiatives in the first four decades of his political career. That Kyoto ratification emerged at the end of that career amplified the influence of Mr. Chretien's "good policy motives" in two ways. First, his staff explain that there was a palpable sense that "time was running out." This was described less as a matter of pursuing policies that would help Mr. Chretien's name go down in history, than of "rounding the agenda" and dealing with "unfinished business" that was important to Mr. Chretien, but that had always taken second place to larger economic and social issues. Thus, in his speech in Johannesburg, Mr. Chretien not only announced the parliamentary resolution on Kyoto, but also creation of a number of new parks that did not in fact have budgetary approval yet. Mr. Chretien's staff were delighted by the headline "above the fold" in one of Canada's two national newspapers, the *Globe and Mail*, the next day: "Jean Chretien's Environmental Legacy."

The second reason is that Mr. Chretien's commitment to a long goodbye ironically strengthened his influence over a divided caucus, of which a majority arguably were committed to his leadership rival. Although Mr. Chretien and Mr. Martin continued to be engaged in a game of chicken with respect to party discipline, the Prime Minister's commitment to retire in 18 months made open rebellion more difficult for the Martin camp lest they appear churlish or, worse, force a snap election. The result was that Mr. Chretien was able to force reluctant Cabinet members and backbenchers, including Paul Martin himself, to toe the line on the Kyoto resolution.

In discussing the influence of ideas on Canadian climate change policy, Bernstein (2002, 230) has emphasized the particular construction of liberal environmentalism, arguing that, "the institutional environment established by Kyoto and norms of liberal environmentalism more broadly have enabled policies consistent with domestic interests *and* the goals of the agreement" and that "liberal environmental norms and the framing of climate change policies under Kyoto make it more difficult to argue that the treaty is anti-competitive or growth." That is hard to reconcile with the heated debate about the implications of Kyoto for competitiveness that took place in Canada in 2002 and has continued since. Moreover, Canada's implementation plan rejects many central tenets of liberal environmentalism. The premise of liberal environmentalism that free trade and environmental protection go hand in hand was sorely tested by the US' withdrawal from Kyoto. Although the implementation plan did establish a cap and trade program for large final emitters, that accounts for just 13% of Canada's Kyoto target, with the rest of the plan predicated on public subsidies that blatantly violate the polluter pays principle. If Canada is to comply with Kyoto (a rather big *if* at this point), it will need to purchase a large fraction of its commitment through international markets. Yet rather than embracing international carbon markets as an expression of liberal environmentalism, the government studiously avoided revealing the extent of international purchases foreseen, more suggestive of political opportunism than an internalized norm. When it came to domestic ratification, the win-win rhetoric of sustainable development confronted the reality of tradeoffs between winners and losers, in a context in which the latter were more

readily identifiable and better organized.<sup>28</sup> That ideas should prevail in that setting is, if anything, even stronger evidence of the influence of norms.

Finally, there is some evidence that Canada's decision to ratify Kyoto was influenced by its broader foreign policy orientation, in effect, a spillover from another policy area. As Bernstein (2002, p. 212) has noted, "As a middle power with an open economy, and geographically, economically, and politically in the shadow of the United States, Canada benefits immensely from rules to buffer direct U.S. influence, while promoting predictability in world economic and political affairs. This policy orientation also enables Canada potentially to play a leadership role disproportionate to its economic and military power." Again, this norm was particularly influential through the agency of Mr. Chretien. Many of those interviewed stressed Mr. Chretien's personal commitment to multilateralism – as a former PMO staffer put it, "that Canada should collaborate in a multilateral context was always a strong article of faith for him." However others focused more on the reputational side. A Cabinet colleague noted, "Mr. Chretien did not like to be told by other leaders, especially other progressive leaders, that Canada wasn't doing its share" while a senior official speculated, "if Japan was going to do it, he would do it; if Europe was going to be there, he would be there."

### The Implementation Gap

While good intentions may have prevailed when Canada ratified the Kyoto Protocol, neither the political opposition nor the institutional challenges subsided when the Environment Minister delivered a very broad and rather optimistic plan to the United Nations in December 2002. Canada's implementation effort to date suggests that good intentions are far from enough.

While industry may have lost on the high profile question of ratification, behind the scenes they have won battle after battle. A carbon tax, which would be the most effective and efficient tool to reduce greenhouse gas emissions, was taken off the table from the outset. Similarly, it has been a tenet since day one that no actions taken pursuant to Kyoto should deter industrial growth, including in the oil, gas, and oil sands industries. The \$15/15% guarantee offered by the federal government as part of the ratification package has had the effect of rendering it virtually impossible for Canada to comply through domestic reductions. A critical question for future research is whether those who negotiated the deal on behalf of the federal government realized the significance of the concession they were making. In any case, even as the federal government became aware that past actions were ineffectual and that the gap was larger again than previously assumed, the 15% burden was further reduced, to as low as 10%, in the April 2005 plan. Moreover, the proposed regulations have yet to even be proposed, let alone promulgated, with the Kyoto commitment period less than two years off. Finally, the automobile industry secured a voluntary agreement, rather than fuel efficiency regulations. In that

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<sup>28</sup> That is, of course, not the only construction of sustainable development. The province of Alberta and the business community argued that sustainable development required environmental protection *and* economic growth, in effect giving a veto to economic growth with respect to any environmental policies. The environmental community, for its part, gives the veto, not surprisingly, to the environment.

respect, Canada, a signatory to Kyoto, is demanding less of the industry than California and the Northeastern US states. One independent analysis of the agreement concluded that, depending on decisions by a joint industry-government oversight committee, the agreement may deliver little more than business-as-usual reductions (Lutsey 2006)

Nor did institutional challenges subside with ratification. Interdepartmental conflicts continued, as did federal-provincial ones. The combination of the political and institutional challenges explains the federal government's marked preference for the instrument of expenditure. Rather than the concentrated costs and diffuse benefits of regulation, it turned to the concentrated benefits and diffuse costs of business subsidies, effectively buying off business opposition with taxpayers' dollars. One former member of Cabinet explained that reliance on expenditure was simply "less painful," while a senior official in a central agency explained "it's an awful lot easier to spend your way out of the problem than it is to regulate everyone." Reliance on public funding of emissions reductions through the Climate Fund mitigated competitiveness impacts vis a vis US, and also offered the important benefit of spreading the costs evenly across all regions of the country. For its part, the Partnership Fund helped to win over provincial governments eager for federal transfers for pet infrastructure projects.

In the end, the result is a federal implementation plan about which different subjects stated "the numbers don't add up; they never have," "there is no technical analysis behind it all," and "the numbers are a fiction." While some preferred to take a leap of faith on the plan, it is hard to imagine that anyone is confident that Canada will comply with Kyoto, whether through domestic or international measures.

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