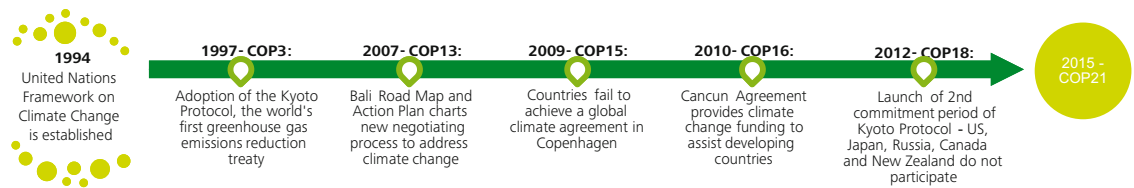


## Climate Change: Canadian business perspectives



The world came together in Paris last December for the United Nations' 21<sup>st</sup> Conference of Parties (COP21) with the intention of making real change. The unprecedented outcomes of this conference – The Paris Agreement in particular – represent the most significant progress in global climate change policy since the Kyoto Protocol of 1997 (see Figure 1).



**Figure 1: Milestones leading into COP21**

Adopted by 195 countries, the legally binding Paris Agreement builds in flexibility around its implementation, allowing countries to determine how best to contribute to the target of global net carbon neutrality by 2050. The agreement is described as long-term, durable, and dynamic.<sup>1</sup> More specifically, it:

- Sets a limit of below 2°C to the rise in global temperatures, while pursuing a target of below 1.5°C
- Requires countries to quantify and report national Greenhouse Gas (GHG) emissions and reductions using a universal accounting methodology

- Recognizes adaptation as critical to supporting developing countries in reducing climate change impact
- Advocates that developed countries collectively mobilize and commit \$100 billion per year in climate financing for developing countries by 2020, with a pledge to further financing in the future

Ahead of the conference, however, Deloitte engaged in conversations with 10 leading Canadian corporations across four industries - consumer business, energy and resources, real estate, and telecommunications - for their views on climate change progress and their expectations for COP21.

<sup>1</sup> Carbon Talk. (2015) Simon Fraser University. Retrieved January 29, 2016 from <http://carbontalks.ca/dialogues/public/apres-paris-a-cop21-debrief>.

“The Paris Agreement is nothing less than a historic milestone for the global energy sector. It will speed up the transformation of the energy sector by accelerating investments in cleaner technologies and energy efficiency.”

International Energy Agency (IEA)

What we heard very clearly – again, *before* the conference – was that Canadian businesses were ready for and anticipating an agreement that would level the playing field for industry and encourage innovative solutions to mitigate and adapt to climate change. Respondents believed the impact of COP21 on them would depend on the level of Canada’s involvement in the proceedings, and that, regardless, commitments and targets were only as useful as the strategies put in place to achieve them.

Canadian businesses were, in short, cautiously optimistic about the outcomes. In this paper, we discuss their responses to our advance survey in light of what COP21 actually accomplished.

### Canadian businesses seek a level playing field and carbon policy certainty

#### Pre-COP21 perspective

Constraint and certainty. The former is a catalyst for creativity and innovation while the latter enables growth. As it happens, Canadian businesses are looking to the federal government for both. Contrary to the country’s prevailing reputation for climate change inaction,<sup>2</sup> the Canadian business leaders who spoke to us said they were ready for an agreement, anticipating new carbon regulation and eager to demonstrate leadership. For this reason, they also wanted the agreement to be global in scope and to include both a national target and province-specific implementation strategies that draw a clear line between industry requirements and the national target.

#### What we heard in Paris

The Paris Agreement, though not yet ratified,<sup>3</sup> goes a long way to establishing the certainty around climate policy that businesses desire.

Per the UN Secretariat, the current Intended Nationally Determined Contribution (INDC) targets – country-specific targets or climate plans that preceded the Paris talks – will

<sup>2</sup> McDonald, B. (2015, November 27). Can Canada avoid the Fossil Award at UN climate talks? CBC News. Retrieved February 19, 2016 from <http://www.cbc.ca/news/technology/can-canada-avoid-the-fossil-award-at-unclimatetalks-1.3307407>

<sup>3</sup> The agreement will be ratified once 55 percent of nations accounting for 55 percent of global emissions sign the agreement. Signing will commence April 22, 2016, and will be open for a year.

not be sufficient to limit global warming to 2°C. As such, nations are required to submit a new national climate plan, termed the Nationally Determined Contribution (NDC), once the agreement has been ratified.<sup>3</sup> Nations must both report their progress every five years and update their targets to reflect the highest possible ambition for the country at those points in time. A “global stocktake” will be taken every five years to assess global progress and to inform subsequent NDC targets. The first of these Stocktake will be conducted in 2023 following a voluntary effort in 2018. Figure 2 outlines Canada’s corresponding milestones.

It goes without saying that the integrity and success of this review program lies in the transparency and commitment of industry and nations alike.

### Canada seized the moment in Paris

#### Pre-COP21 perspective

The majority of Canadian business leaders we interviewed told us that the true impact of COP21 on them would largely depend on the Canadian federal government’s participation and presence at the talks. Businesses wanted the government to take a leadership role and ensure that Canadian values and perspectives were represented.

It is understood that Canada has, over the last several years, developed a relatively poor international reputation on the topic of climate change action. The Canadian energy sector, in particular, expressed hope that the policies of the new federal and Alberta governments would help shift global perspectives more favourably.

#### What we heard in Paris

Even before COP21 was underway, it was clear that climate change was an integral part of the new federal government’s platform. “Climate Change” was even added to the name of the Ministry of Environment, and all ministries will have climate change goals in their mandates going forward. Meanwhile, days before COP21, Alberta announced its Climate Leadership Plan. This announcement proved to be a key driver behind the international community’s warm reception of Canada in Paris. The plan limits GHG emissions from the oil sands to 100 megatonnes per year and phases out coal-powered electricity by 2030.

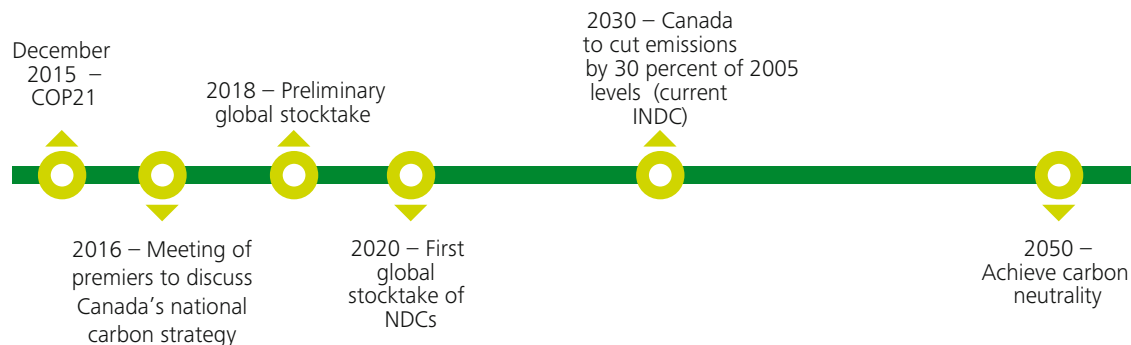


Figure 2: Significant post-COP21 milestones for Canada

Country	INDCs	Current carbon-pricing systems or programs	Proposed carbon-pricing systems or programs
Canada	<ul style="list-style-type: none"> <li>• 30% of 2005 levels by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• BC tax of \$30/tonne</li> <li>• Quebec cap-and-trade scheme (linked to California in 2014)</li> <li>• Alberta price \$15/tonne</li> </ul>	<ul style="list-style-type: none"> <li>• BC tax frozen till 2018, potential increases going forward</li> <li>• Ontario cap-and-trade beginning 2017 with 3.7% emissions decline limit</li> <li>• Alberta price to increase to \$20/tonne in 2017, rising to \$30 in 2018, continual increases by 2% post-2018</li> </ul>
USA	<ul style="list-style-type: none"> <li>• 26%-28% of 2005 levels by 2025</li> </ul>	<ul style="list-style-type: none"> <li>• California cap-and-trade scheme</li> <li>• Regional Greenhouse Gas Initiative</li> </ul>	<ul style="list-style-type: none"> <li>• Washington potential tax \$25/ton</li> <li>• New York state potential tax \$35/ton</li> <li>• Oregon potential tax \$10/ton</li> </ul>
Australia	<ul style="list-style-type: none"> <li>• 26-28% of 2005 levels by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• National repealed carbon tax in 2014</li> </ul>	<ul style="list-style-type: none"> <li>• Direct Action Plan, including the Emissions Reduction Fund, set for review in 2017</li> </ul>
China	<ul style="list-style-type: none"> <li>• Peak carbon emissions by 2030</li> <li>• Lower carbon intensity of GDP to 65% below 2005 levels by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• Seven municipal pilot cap-and-trade schemes in Beijing, Chongqing, Shanghai, Shenzhen, and Tianjin</li> <li>• Two provincial pilot cap-and-trade schemes in Guangdong and Hubei</li> </ul>	<ul style="list-style-type: none"> <li>• National emissions-trading scheme beginning in 2017</li> </ul>
EU	<ul style="list-style-type: none"> <li>• 40% below 1990 levels by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• EU emissions-trading scheme</li> </ul>	<ul style="list-style-type: none"> <li>• Continued EU emissions-trading scheme</li> </ul>

Table 1: Current INDCs for select parties to COP21 (sources on page 8)

"Canada is back, my friends."

Prime Minister Justin Trudeau

For other energy-driven economies and subnational jurisdictions alike, the bar has been set.

Where COP21 itself was concerned, Canada sent a 300-person delegation, including Prime Minister Justin Trudeau, provincial premiers, and cabinet ministers. The new Minister of Environment and Climate Change, Catherine McKenna, was one of 14 ministers who served as conference facilitators. The international community reacted positively to this strong presence. Achim Steiner, executive director of the United Nations Environment Programme, remarked that "[Canada] very quickly took centre stage . . . in a very short period of time, becoming a central player again on the global stage."<sup>4</sup>

<sup>4</sup> Chevalier, J. (2016, January 27). Canada has 'responsibility to lead by example,' UN environment chief says. CBC News. Retrieved February 1, 2016 from <http://www.cbc.ca/news/politics/unep-environment-canada-green-tech-1.3422440>.

Since the conference, the federal government has promised to reduce GHG emissions below the commitments previously submitted in its INDC, which currently falls short of the levels committed by other leading countries, commitments (see Table 1). According to McKenna, Canada's INDC target of a 30-percent reduction in emissions below 2005 levels by 2030 "will be the floor, but certainly we want to try to do better [ . . . ]. We're going to work with the provinces and territories to come up with our target, but also what our plan is to get there."<sup>5</sup>

McKenna's last point is critical – especially for the businesses we surveyed. The federal government met with the premiers on March 3, 2016 to discuss an integrated national climate change strategy, including an agreement in principle for a carbon-pricing mechanism. Working groups have been established to address four key areas:

<sup>5</sup> Catherine McKenna, minister of Environment and Climate Change, November 2015

clean technology, innovation and jobs, carbon pricing, and mitigation. A report back will be conducted in October 2016 and the findings will be used to create a "Canadian framework for clean growth and climate change".

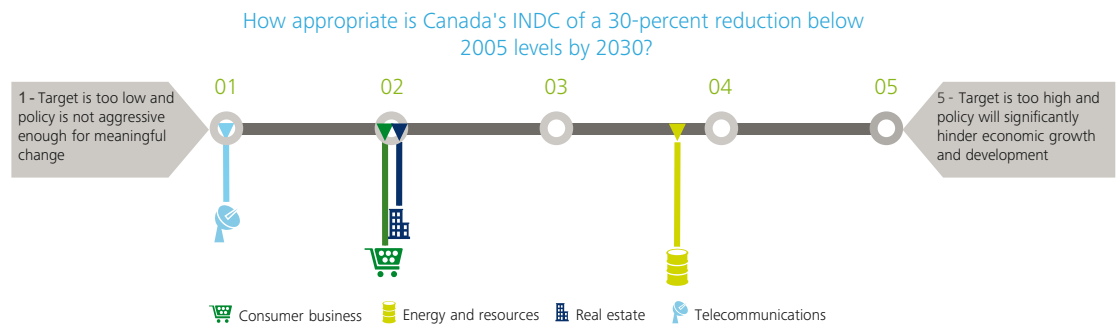
In addition to the working groups, a number of notable post- COP21 developments have started to take shape. For example, the federal government has begun moving on its promise to take tangible action with plans to require climate tests on proposed pipeline and LNG terminals to determine their impact on Canada's emissions.<sup>6</sup>

As for the businesses?

### There is a disconnect between Canada's INDC target and Canadian business activity

#### Pre-COP21 perspective

<sup>6</sup> McCarthy, S. (2016, January 25). Ottawa to mandate climate tests for proposed pipelines, LNG terminal. Globe and Mail. Retrieved January 25, 2016 from <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/ottawa-to-mandate-climate-tests-for-proposed-pipelines/article28391364/>



**Figure 3: Perceived appropriateness of Canada's COP21 INDC** (sourced from 10 interviews with leading businesses based on their views of their industries)

Canadian businesses felt far removed from the INDC target. Although we heard a range of responses regarding the perceived appropriateness of the target (see Figure 3), the general consensus was that a target is only as good as the strategy for hitting it.

Implementing climate-change strategy is still in its infancy across Canada. Businesses have implemented a wide range of climate-change measures, such as metric tracking and scenario planning with an internal shadow price for carbon. Leading businesses view climate change as an opportunity and proactively position themselves for growth in a low-carbon economy. However, on average, efforts are incremental and sporadic. Significantly, Canadian businesses struggle to see a favourable cost-benefit outcome from taking emissions reduction to the next level – without, that is, a national strategy and the regulation to support it. Businesses seek a clear, tactical and, above all, relevant strategy for determining their contribution to the national target and to serve as the catalyst for broader change.

#### What we heard in Paris

Canada has committed to setting a national strategy with input from all provinces. While specifics of the strategy are still to be determined, McKenna has declared that change is coming. "What is very clear is that we are going to put a price on carbon, [and] that we know that we need to move to a low-carbon economy," she said. "And we're going to figure out the tools to do that in conjunction with the provinces and territories and also the aboriginal leaders."

#### Canadian business perspectives

"The current target is reasonable but, to date, no clear strategy has been identified which would facilitate the achievement of that target."

Senior management at an energy and resources company

"We need a strategy to get us to this target, and the Alberta policy is one part [of that]."

Senior management at an energy and resources company

"Putting out a goal of 30-percent reduction without taking [sectors] into account... is not fair."

Vice President at a real estate company

"What is not stated is how [the federal government] are tracking and reporting on the target, and how have they delegated accountability . . . it leaves something to be desired."

Senior management at a telecommunications company

"...what is very clear is that we are going to put a price on carbon..."

Catherine McKenna, Canada's Minister of Environment and Climate Change

In order to determine a suitable and effective mechanism for Canada, the federal government, the provincial governments of Alberta and BC, the territorial government of the Northwest Territories and 17 other jurisdictions have joined the UN Carbon Pricing Leadership Coalition. This coalition aims to bring together leaders from across government, the private sector and civil society to share their experiences working with carbon pricing and to expand the evidence base for the most effective carbon pricing systems and policies.<sup>7</sup> Canada was the only nation that had sub-jurisdictions join the coalition, further demonstrating the strength of the country's renewed political engagement with climate action.

While Canada reviews its INDC and prepares to submit a revised target, businesses are looking down the road to the global 2050 target – carbon neutrality, or an equal balance of carbon sources and carbon sinks. During the closing session of the University of North Carolina at Charlotte Business Forum in December 2015, senior leadership for major corporations such as Kellogg, IKEA, and Google discussed a spectrum of opportunities for businesses to become carbon neutral. These included reductions in energy use and investment in new or renewable technology.

### COP21's potential impact on Canadian business will be significant – but part of a larger movement

#### Pre-COP21 perspective

By and large, Canadian businesses know that the actions they are required to take regarding climate change are driven by more than the outcomes of COP21 alone. Investors are demanding more information about the carbon footprint of the companies they invest in through disclosure avenues such as the Carbon Disclosure Project and Environmental, Social and Governance (ESG) financing. The media, NGOs and communities are scrutinizing businesses on this matter more than ever. Simply put, regardless of any legislation enacted in Canada to follow

COP21, businesses know they need to be proactive in tackling climate change as a demonstration of their risk awareness and acumen.

COP21 is therefore mainly the culmination of numerous events that have brought climate change back to the forefront of public discourse.

Interviewees told us they expected the outcomes of COP21 to have a moderate to low impact on their businesses (see Figure 4). This isn't necessarily because they thought COP21 would fail to deliver tangible outcomes. Rather, and more simply, the overall momentum to solve the climate change problem is understood to be bigger than any one conference. Leading companies, in fact, are already taking a range of actions to monitor and mitigate their impacts

#### What we heard in Paris

On the off-chance it wasn't clear before COP21, the worldwide attention drawn to the Paris Agreement makes it unequivocal: interest in and attention to climate change is here to stay. In addition to setting national GHG reduction targets, the Agreement called on developed nations to give \$100 billion annually to developing countries by 2020 for investments in clean energy and climate adaptation. Canada has pledged \$2.65 billion over the next five years to support developing countries transition to low-carbon economies and adapt to climate change.<sup>8</sup>

<sup>8</sup> Fekete, J. (2015, Nov 27). Trudeau pledges \$2.65B to help poor countries fight climate change. The National Post. Retrieved

<sup>7</sup> Carbon Pricing Leadership. (2016). Retrieved January 29, 2016 from <http://www.carbonpricingleadership.org/leadership-coalition>.

"What we're doing is sending the marketplace an extraordinary signal."

John Kerry, US Secretary of State

To what extent do you anticipate the outcomes of COP21 will affect your business?

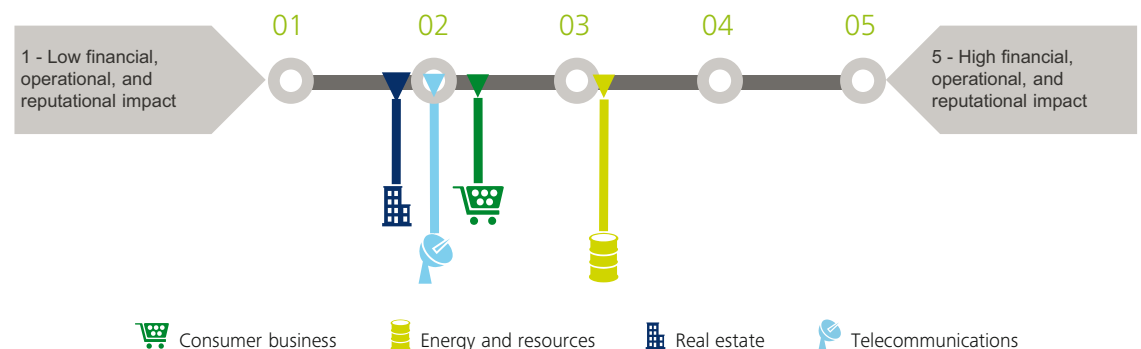


Figure 4: Expected impact of COP21 (sourced from 10 interviews with leading businesses based on their views of their industries)

# So what does this mean for business?

COP21 has, in other words, furthered the international momentum already in place. Attention now turns to how the pledges made by the Canadian federal government in Paris will be translated to legislation at home.

## Be prepared

Businesses are starting to see the impacts of climate change and the associated risks are increasingly showing up on the radars of many diligent organizations.

Aside from the physical risk to assets that extreme weather poses, investors and other stakeholders are becoming more interested in mitigation and adaptation measures that can limit potential impacts on operations. Mechanisms such as requiring entities to demonstrate they have recognized relevant climate change risks and analyzed how they might affect investment returns over the short, medium and long terms could help improve management of these risks generally. Per the World Economic Forum's 2016 Global Risks Report, "after its presence in the top five most impactful risks for the past three years, the failure of climate change mitigation and adaptation has risen to the top and is perceived in 2016 as the most impactful risk for

the years to come."<sup>9</sup>

Risk mitigation, however, is only one side of the coin. According to US Secretary of State John Kerry, "there is an economic windfall with this transition (to a low carbon economy)...it is one of the greatest economic opportunities the world has ever seen."<sup>10</sup> With the trillions of dollars required to mobilize a low-carbon economy, businesses that are well-prepared with relevant tools and expertise will be better positioned to adapt to change and capitalize on opportunities. Prior to COP21, the businesses we surveyed recognized these opportunities. And while they felt they were well-positioned relative to their peers to tackle climate change risks (see Figure 5), they also understood there was work to be done to seize the opportunities presented by evolving climate change policy.

The following section outlines strategies that enable companies to keep in step with evolving climate change policy and to use as a platform for leadership in a low-carbon economy.

January 25, 2016 from <http://news.nationalpost.com/news/canada/trudeau-pledges-2-65b-to-help-poor-countries-fight-climate-change>.

<sup>9</sup> World Economic Forum. (2016). Retrieved January 29, 2016 from <http://reports.weforum.org/global-risks-2016/executive-summary/>

<sup>10</sup> Caring for Climate Business Form, Day 2. (2016). Retrieved January 29, 2016 from <https://www.unglobalcompact.org/take-action/events/71-caring-for-climate-business-forum#videos>

## How ready is your business to meet evolving climate change goals?

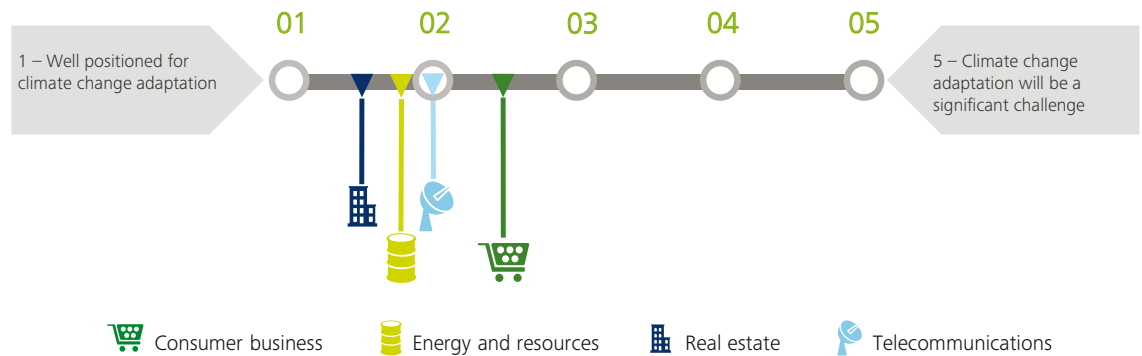


Figure 5: Relative readiness of Canadian businesses to meet evolving targets (sourced from 10 interviews with leading businesses based on their views of their industries)

### Critical requirements for business

Carbon risk management has shifted from an innovative play to a necessity. Individual businesses and their needs vary, and it's clear that a major reduction in GHGs will not come without cost. Nevertheless, now is the time for businesses to act, to define where on the adaptation spectrum they want to be and to prepare to play strategically among their peers.

There are, of course, a few key minimum requirements (see Figure 6). Businesses will need to quantify and report emissions annually, conduct risk assessments to account for carbon risk and stranded assets, and develop a climate resilience and adaptation strategy.



Figure 6: Minimum considerations for building a strong carbon risk management strategy

### Final word

The climate change policy landscape is quickly changing. While the coming months will reveal the finer details of how COP21-influenced legislation will be enacted in Canada, we can say this much with certainty today: those Canadian businesses that adapt, innovate, and capitalize on opportunities presented by carbon constraints will be leaders in the low-carbon economy supported by the federal government.

For the first time in decades, business and government are starting to align to take meaningful action. Canada is well positioned to deliver.



Sources for Table 1: Current INDCs for selected COP21 parties Australian Department of Environment. (2015). The emissions reduction fund: The safeguard mechanism. Sydney. Retrieved from <https://www.environment.gov.au/climate-change/emissions-reduction-fund/publications/factsheet-erf-safeguard-mechanism> Cap-and-Trade Program. (n.d.). Retrieved from <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm> Crocker, D. (2015, December 7). Ontario outlines key aspects of incoming cap-and-trade market. DLA Piper. Retrieved from <https://www.dlapiper.com/en/canada/insights/publications/2015/12/ontario-outlines-aspects-of-incoming-cap-and-trade/> Government of British Columbia. (2015a). Climate action legislation. Retrieved from <http://www2.gov.bc.ca/gov/content/environment/climate-change/policy-legislation-programs/legislation-regulations> Government of Alberta (2015b). Climate leadership discussion document. Retrieved from <http://www.alberta.ca/albertacode/images/Climate-Leadership-Discussion-Document.pdf> Government of Alberta (2015c). Guidelines and legislation. Retrieved from <http://esrd.alberta.ca/climate-change/guidelines-legislation/default.aspx> Government of Alberta (2015d). Climate Leadership Plan. Retrieved from <http://alberta.ca/climate/leadership-plan.cfm> Government of Alberta. (2015e). Alberta continues climate leadership by joining the Climate Group's States and Regions Alliance. Retrieved from: <http://alberta.ca/release.cfm?xID=38935AFEC5C2B-F979-CF3E-8328C30BCA04DA1E> Regional Greenhouse Gas Initiative. (n.d.). Retrieved from <http://www.rggi.org/> States. (n.d.). Last updated 2016, February 12. Retrieved from <http://www.carbontax.org/states/> Sustainable Prosperity. (2015). A new report to celebrate 7 years for british columbia's carbon tax. Retrieved from <http://sustainableprosperity.ca/blog/new-report-celebrate-7-years-british-columbia%E2%80%99s-carbon-tax> The Climate Group. (2015). Rio de janeiro and catalonia launch first global initiative on climate adaptation at the regional level. Retrieved from [http://www.theclimategroup.org/what-we-do/news-and-blogs/riodejaneiro-and-catalonia-launch-first-global-initiative-on-climate-adaptation-at-the-regional-level/?utm\\_source=hootsuite](http://www.theclimategroup.org/what-we-do/news-and-blogs/riodejaneiro-and-catalonia-launch-first-global-initiative-on-climate-adaptation-at-the-regional-level/?utm_source=hootsuite) The EU Emissions Trading System (ETS). (2016, February 11). Retrieved from [http://ec.europa.eu/clima/policies/ets/index\\_en.htm](http://ec.europa.eu/clima/policies/ets/index_en.htm) Tiezzi, S. (2015, September 26). What you need to know about china's cap-and-trade announcement. The Diplomat. Retrieved from <http://thediplomat.com/2015/09/what-you-need-to-know-about-chinas-capandtrade-announcement/> United Nations Framework Convention on Climate Change. (2015). INDCs as communicated by parties [Data files]. Retrieved from <http://www4.unfccc.int/submissions/indc/Submission%20Pages/submissions.aspx>

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