



CLEAN GROWTH
BUILDING A CANADIAN
ENVIRONMENTAL SUPERPOWER

A POLICY DECLARATION OF THE
CANADIAN COUNCIL OF CHIEF EXECUTIVES
PREPARED BY THE COUNCIL
TASK FORCE ON ENVIRONMENTAL LEADERSHIP

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Achieving sustainable development is the most fundamental challenge facing the world today, and within this broad environmental and economic challenge, the *Canadian Council of Chief Executives* (CCCE) believes firmly that climate change represents the most pressing and daunting issue.

We know enough about the science of climate change to recognize that aggressive global action is required. The scale of the challenge is enormous, but it offers immense opportunities for Canada. We share the goal of slowing, stopping and reversing the growth of global greenhouse gas emissions (GHG) over the shortest period of time that is reasonably achievable. As Canadians and as global citizens, we must act decisively to reduce our impact on the environment and to help people around the world adapt to changes that cannot be prevented.

Finding a consensus on the best path forward on an issue as complex as climate change is no easy task, either within a country or globally. But in one forum after another - at the 2007 G8 Summit, the Asia-Pacific Economic Cooperation (APEC) Leaders' Meeting and most recently at the United Nations - almost all countries are recognizing that the challenge is serious and that everyone must be part of the solution. The fact that China already has become the world's largest emitter highlights the need to engage the world's most populous and rapidly growing economies as well as the United States and other industrialized countries that chose not to ratify the Kyoto Protocol on climate change.

To encourage an inclusive approach, there also is global consensus on the importance of flexibility, of having different countries make the most of their individual strengths to make a meaningful contribution to a global solution in ways that fit their own circumstances. We believe that Canada is uniquely positioned to demonstrate leadership within this international process, but first we need to hammer out a consensus on the most effective strategy for our country to pursue at home.

Canadians want to do what is right for the environment, and they want to do so in a manner that will add to their quality of life. As business leaders, we see climate change and sustainable development as major economic opportunities. The key is to shape public policies that reinforce both the desire of individuals and companies to reduce their environmental impact

and their ability to invest their money in the new technologies, products and processes that will make the greatest difference domestically and globally.

This Declaration marks the first contribution of our *Task Force on Environmental Leadership* to Canada's strategy for addressing climate change and sustainable development. We are putting forward five key propositions about how best to move forward as a country from where we stand today:

1. ***A national plan.*** *To make a meaningful contribution to the global challenge of climate change, Canada needs a coherent national plan of action, one that sees governments, industry and consumers working together toward shared goals.*
2. ***The technology opportunity.*** *The core of this national plan must focus on investment in the new technologies that can help both Canada and the rest of the world achieve a rising standard of living with a reduced environmental impact.*
3. ***Targets and investment.*** *Targets are a spur to environmental progress, but to be effective, they must be framed within a policy environment that keeps companies healthy and profitable and that both encourages and enables increased investment in new technologies.*
4. ***The power of price signals.*** *Encouraging businesses and individuals to change behaviour requires appropriate price signals, and these signals can be strengthened through carefully designed market-based mechanisms such as emissions trading and environmental taxation.*
5. ***Canadian leadership globally.*** *To achieve effective global progress in addressing climate change, Canada must champion a future international process that will ensure the participation of all major emitting countries.*

We are advancing these propositions as starting points, not final answers. We remain open to any and all ideas that would help Canada reduce GHG and other emissions while promoting the innovation and investment that will drive superior economic as well as environmental performance.

A NATIONAL PLAN

To make a meaningful contribution to the global challenge of climate change, Canada needs a coherent national plan of action, one that sees governments, industry and consumers working together toward shared goals.

During the fifteen years since the signing of the United Nations Framework Convention on Climate Change and the decade since the negotiation of the Kyoto Protocol, Canadian public policy has been marked by grandiose

gestures and sweeping promises that have produced far too little real impact. Individual companies and industry sectors have made considerable progress, and Canadian consumers are voting with their wallets in favour of more environmentally friendly products and services. But we see too little effort amongst the various levels of government in Canada to work together on a coordinated and coherent plan to deal with the issue. The federal government too often finds itself at loggerheads with provincial governments, while the provinces seem unable to agree among themselves on the best path toward a national strategy.

Canadians have wasted valuable time in a prolonged debate about a national target for greenhouse gas (GHG) emissions that, whatever its original appeal, is no longer realistic or achievable. This should not excuse us from moving forward today with conviction.

We should be guided not by short-term political expediency but rather what is in Canada's long-term interest in improving both our environmental and economic performance. We must get a start now, but we should be clear about the timeframe necessary to accomplish the transition to a clean and low-carbon economy. Energy-intensive industries have long planning horizons for large capital investments. They need a stable and predictable policy regime that provides long-term guidance and does not disadvantage investments already made. Progress on the consumer front also will take time, because of the cost of making major home renovations and purchasing new cars and appliances. Similarly, while there is great potential to make our communities more environmentally friendly, rebuilding transportation infrastructure is a lengthy process, while the impact of urban planning and new architectural codes and innovations is felt one building and one development at a time.

A national plan must start with *a more integrated approach* among all levels of government and a commitment to work toward a common objective. Governments alone, however, cannot either develop or deliver an effective national plan. To achieve Canada's full potential in contributing to a global solution on climate change, both enterprises and individual citizens must be engaged fully in contributing ideas and taking action.

Business leaders have an important role to play that goes beyond the actions that have been and will be taken by our enterprises to reduce emissions. We also can be agents of change by enrolling our employees in efforts to address environmental issues, by helping our suppliers and customers to build environmental thinking into their business strategies, and by contributing better products and technologies for both consumer and business application.

Development of a national plan must begin with open minds and constructive dialogue. For far too long the Canadian debate has focused on the question of how ambitious our targets should be rather than on what we are prepared to do -- as governments, businesses, public institutions and individual Canadians. *We all contribute to the creation of GHG emissions and nothing meaningful will happen unless we all take on our share of the responsibility.* In working together to develop an effective national plan, we should be ambitious in our goals and realistic about what it will take to achieve these goals.

Tackling our environmental challenge will have costs for governments, businesses and individuals, and we should not pretend otherwise. Those costs can be managed through smart and well-timed policies and by harnessing the best of Canadian innovation. But we should be clear about the implications of the choices we make -- today and for the future -- and be sure that we are on the best path for realizing the many opportunities that flow from environmentally sustainable development. We will not build a successful national strategy by downplaying the likely costs and impacts, for that would only breed cynicism and create a public backlash when the true costs become known.

Meeting the climate change challenge will impose significant costs on Canadians, but also offers huge opportunities. If governments, industry and citizens work in concert, we can make a real difference. The key is to make the right decisions about what investments in the short term will produce the greatest returns both now and over the long haul, for Canada's economy and for the global environment.

THE TECHNOLOGY OPPORTUNITY

The core of this national plan must focus on investment in the new technologies that can help both Canada and the rest of the world achieve a rising standard of living with a reduced environmental impact.

Hydrocarbons will continue to supply a large part of the world's energy needs well into the future, and global demand for energy will only increase as rapidly expanding economies such as China and India move toward higher standards of living. Canada is a growing and net exporter of energy as well as other resource products that are energy-intensive. This gives us a responsibility and an opportunity to be wise stewards of our resources and an example to other countries.

The key to a sustainable future is technological innovation. Precisely because our country is a major energy and resource producer and exporter,

we should focus our research and development on cutting the carbon intensity and environmental impact of the way we produce conventional hydrocarbon energy as well as on new low-carbon energy sources. This includes investment in clean coal, carbon capture and storage, biofuels such as cellulosic ethanol and biodiesel, nuclear, wind, solar, fuel cells, energy from waste and hydro power. Canada has the resource base, the scientific and human talent and the financial and entrepreneurial skills to be a leader in the development of next generation technologies that will provide cleaner energy and environmentally preferable products and services that can be put to use both here and abroad. *Energy is our strength and clean energy has the potential to be our greatest competitive advantage. If we make the most of this strength, Canada can become an energy and environmental superpower.*

There can be no doubt that the private sector will be the source of the vast majority of emissions-reducing technologies. Canada must provide a policy environment that allows innovative firms to realize their full potential. We need a focused technology strategy combined with a clear and consistent policy framework that will stimulate domestic and global adoption of more effective technologies today as well as research, development and deployment of low carbon energy and advanced technologies for the future.

The federal and Alberta governments, as part of their regulatory regime for greenhouse gases, have both proposed the creation of a “technology fund” to help finance the transition to cleaner technologies. This concept is critical to Canada’s success both in reducing its own emissions and in maximizing its economic performance. It should not be a short-term transitional measure as portrayed within the current federal climate-change plan. Rather, this should be a key vehicle for driving innovation over the longer term. To achieve the greatest possible impact, it will be vital to include the business community in the development of the rules that will govern the flow of money into and out of such funds. We are eager to work closely with governments to ensure that such funds and other elements of Canada’s technology strategy deliver meaningful results.

Whether through technology funds or other mechanisms, government incentives for investment in research must be stable and long-term. Research incentives must be complemented by policies that encourage companies to put new technologies to use as quickly as possible once they are developed. And governments and business must work together to shape the strategic path forward and to ensure that the policies and programs achieve their intended results. Our goal must be to drive energy innovation that will cut Canadian emissions, strengthen Canada’s competitive advantage and enable Canada to make the greatest possible contribution to a sustainable global economy.

TARGETS AND INVESTMENT

Targets are a spur to environmental progress, but to be effective, they must be framed within a policy environment that keeps companies healthy and profitable and that both encourages and enables increased investment in new technologies.

Canadian businesses already have done a great deal to make their operations and products more energy efficient, to develop new technologies that reduce emissions and costs and to create more sustainable business models. However, we can and must do more. Industry is committed to additional progress on both greenhouse gases and air pollution.

To do so we need an overall policy framework that recognizes competitive realities. Economic growth and the energy that feeds it are prerequisites for Canada's ability to innovate. Canada's technology strategy therefore must be reinforced by a broader framework of energy and environmental policies that will enhance Canadian competitiveness and our ability to supply resources to a growing global market.

The federal government recently unveiled a series of ambitious targets for reductions of greenhouse gases from the most energy-intensive industrial sectors. These targets are challenging in and of themselves, especially for industries that have long-lived capital stock and which of necessity have been focused on improving energy efficiency for many years. As well, the mandated goals -- improvements of 18 percent in emissions intensity over three years and by 2 percent annually every year thereafter -- appear to exceed requirements faced by the vast majority of our competitor industries in other countries.

The proposed federal GHG targets are expressed in terms of emissions intensity. While intensity targets make sense as a means of encouraging Canadian firms to become more energy efficient without being penalized for growing, the ultimate goal must be to achieve a substantial *absolute* reduction in emissions of greenhouse gases, in Canada and globally. *To achieve such an overall reduction, governments must ensure that firms are not arbitrarily penalized in the short term, so that they continue to have the financial and technical capacity to make investments that both reduce emissions and improve productivity.*

As governments set regulatory targets and requirements, a consistent approach is essential. Investments in technology and capital equipment are long term, and companies need to know that the rules on which such investments are made will not be changed arbitrarily. When rules do

change, governments also must be careful to reward rather than penalize companies that have taken early action.

In addition to greenhouse gas emissions, the federal government rightly wants to tackle emissions of a variety of air pollutants that contribute to smog and air quality problems, particularly in the most populous regions. The air pollution targets proposed by the federal government require extensive consultation with the affected sectors to ensure they are economically and technologically feasible and that they will work effectively in concert with industry plans for investment and upgrading. *Real and sustainable improvements in environmental performance come when healthy firms are able to make productive investments in new technologies, and when they can attract capital and expertise to drive innovation.*

THE POWER OF PRICE SIGNALS

Encouraging businesses and individuals to change behaviour requires appropriate price signals, and these signals can be strengthened through carefully designed market-based mechanisms such as emissions trading and environmental taxation.

The price signal is an important means to ensure that energy use reflects its environmental costs. Even without such government intervention in markets, consumer preferences clearly are shifting toward more environmentally friendly alternatives. Similarly, markets are providing considerable incentive for action by industry, and many companies already have made major strides. As Canadian business leaders, we understand that in the years ahead, the companies that develop the best technology and the most innovative products will be the winners, in Canada and globally. Market forces alone, however, are unlikely to be sufficient to meet the challenge of climate change.

There are two main market-based ways for governments to persuade businesses and consumers to reduce emissions of greenhouse gases and pollutants more quickly. One is to send price signals directly to the market via environmentally linked taxes. The other is a cap-and-trade system that limits the total quantity of emissions and distributes the right to emit by creating a market in tradable permits.

Most governments, in Canada and around the world, are currently focused on cap-and-trade. This was the option established by the Kyoto Protocol on climate change. Canada's federal government intends to develop a domestic emissions trading regime as part of the compliance package for industries subject to regulatory requirements to reduce GHG emissions.

Alberta is developing a similar scheme that will be limited to trading within Alberta. Ontario and the Atlantic provinces have raised the possibility of cross-border systems with the United States, and there has been considerable discussion in policy circles about the potential for a North American market.

Emissions trading is attractive in theory because it enables each dollar of investment to flow to where it can achieve the greatest impact in reducing emissions. Experience with such systems to date, however, suggests that there are many challenges, including:

- **Fairness.** In order to set up a cap-and-trade system, governments first must set an overall cap and then allocate the cap across industry sectors and among individual companies or plants.
- **Competitiveness.** When permits are to be traded internationally, governments need to ensure that their caps and allocations impose costs on domestic companies that are no more onerous than those faced by competitors in other countries.
- **Integrity.** Especially when credits are traded internationally, governments must ensure that purchased credits in fact reflect the stated quantity of reduction in emissions elsewhere.
- **Liquidity.** Markets limited to a single country or province are more likely to create situations of excess supply or demand. Too much supply with few buyers would destroy incentives for business investment; too little supply, on the other hand, could leave companies operating within a small market effectively unable to meet their obligations.
- **Volatility.** Price volatility can be excessive even within large markets. Over the past decade, for instance, the United States market for tradable permits in sulphur dioxide emissions has seen annual fluctuations in price averaging more than 40 percent a year. Such wide fluctuations across a wide range of pollutants and greenhouse gases would not only threaten consumers with rapid and unpredictable price increases, but also would create a level of uncertainty for business investors that might deter rather than encourage investment.

These issues can be addressed with proper design. To deal with the issues of liquidity and volatility, for instance, some cap-and-trade proposals include a safety valve, a price cap that guarantees the availability of permits at a maximum price. This is the approach being taken by Alberta with respect to its technology fund.

The other broad option for governments is to alter price signals through taxation. There is no question that taxation can be effective in changing business and consumer decisions and behaviour. Environmental levies such as a carbon tax are transparent, making the price of emissions clear and consistent. They can encourage long-term investments in research and in capital equipment by establishing a known rate of return. But Canadians must recognize that significant levels of taxation likely would be required to drive significant changes in behaviour.

We are not proposing a new tax. However, if any new environmental tax were to be proposed, it must be a substitute for existing forms of taxation, not a revenue grab. Any new tax in Canada must not discriminate against any particular sector or region, and should be implemented only as part of broader tax reform that aims to enhance our country's economic as well as environmental performance. This is especially important with respect to environmental taxation, since the burden of such taxes in most cases flows through to the individuals who ultimately use the energy or consume its resulting products. Simply adding to Canada's tax burden under the guise of environmental responsibility is a recipe for both damaging the country's economy and undermining public support for environmental goals.

The essential question is the extent to which governments wish to accelerate changes in consumer and business behaviour, whether through taxation or emissions trading or through other means such as regulation, targeted spending or subsidies. In considering such policy tools as part of a national plan, governments must ensure that companies face a single set of rules and have cost-effective options for meeting regulated goals.

Whatever policy tools they choose must be effective in reducing projected emissions. To this end, they must be transparent, stable and avoid giving any one sector or region an unfair advantage. They should make maximum use of market forces and minimize complexity and compliance costs. And they must be designed so that industries and consumers are not merely penalized, but have positive reasons to take action. In short, policies aimed at changing behaviour through price signals must deliver positive environmental outcomes in ways that foster an innovative economy and strengthen Canada's competitive advantage.

CANADIAN LEADERSHIP GLOBALLY

To achieve effective global progress in addressing climate change, Canada must champion a future international process that will ensure the participation of all major emitting countries.

While the Kyoto Protocol has a number of positive features and certainly the attempt to forge a broader international consensus was noble, the reality is that the countries committed to meeting Kyoto targets represent at most 30 percent of global emissions. *The need is clear for a much more concerted international effort first to slow the global growth of emissions, and then to stabilize and reduce emissions levels over the next several decades.*

The 2007 G8 Summit and the APEC Leaders' *Sydney Declaration* both pointed to a growing consensus that an effective international solution must look beyond 2012 and will require the participation of all major emitting nations. Nonetheless there remains considerable debate about the best way to define each country's contribution. We see this as an opportunity to be creative about the approach.

One overriding consideration is that all major emitting countries must clearly see it to be in their national interest to increase their efforts to address climate change. Seemingly ambitious proposals which do not attract major emitting countries will not achieve long-term success. As noted in the 2007 G8 communiqué, targets based on improvements in the carbon intensity of economic development may be essential to encourage the commitment of developing countries to take action on climate change.

While national targets have been the focus to date, there also is merit in considering a more flexible, bottom-up approach as advocated by the *World Business Council on Sustainable Development*. Important complementary work can be undertaken within global industry sectors that are GHG-intensive so as to accelerate the spread of innovative technologies that reduce GHG and other emissions.

We also need to encourage greater international effort in climate science and adaptation. Canada can contribute to improving our understanding of the impacts of a changing climate and in particular in the development of strategies to deal with vulnerable regions such as the Arctic and coastal communities.

As a country, as industry sectors and as individual enterprises, we should drive Canadian leadership by benchmarking ourselves against the rest of the world, but we also must recognize that a long-term plan that includes all significant players

globally is the only effective solution to climate change. Canada should champion an approach to future international agreements that ensures participation from all major emitting countries. To this end, our country should be a model to the world in demonstrating how to align public policy to strengthen economic and environmental performance.

CONCLUSION

Canada's business leaders are committed to leadership in addressing the challenges of sustainable development and in particular of climate change. Through its *Task Force on Environmental Leadership*, the CCCE will promote action across industry and bring sectors together to advance the essential elements of an ambitious and comprehensive national strategy. In this statement, we have highlighted five points:

- Canada needs a national plan of action, one that sees governments, industry and consumers working together effectively toward shared goals;
- The core of this plan must focus on investment in the new technologies that can strengthen Canada's economic future while improving the environment at home and abroad;
- Targets are an important spur to action, but they must be framed in a way that both encourages and enables Canadian enterprises to increase investment in new technologies;
- Governments must consider carefully the most effective ways to harness market forces through price signals to businesses and consumers alike; and
- Canada's own environmental performance must enable us to champion credibly an inclusive global approach that can win the participation of all major emitters of greenhouse gases and pollutants.

The goal of Canada's business leaders is as ambitious as it is clear: to enable our nation to harness its plentiful energy resources and abundant human skills to become an energy and environmental superpower.

TASK FORCE ON ENVIRONMENTAL LEADERSHIP



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CANADIAN COUNCIL OF CHIEF EXECUTIVES



The *Canadian Council of Chief Executives (CCCE)* is a not-for-profit, non-partisan organization composed of the chief executives of 150 of the country's leading enterprises and pre-eminent entrepreneurs.

The Council is the senior voice of Canadian business on public policy issues in Canada and internationally. Member companies administer \$3.5 trillion in assets, have annual revenues in excess of \$800 billion and are responsible for the vast majority of Canada's exports, investment, research and development, and training.

The Council prides itself on policy entrepreneurship, and its ideas and actions have had a major influence in the shaping of fiscal, taxation, trade, energy, environmental, competitiveness and corporate governance policies in Canada. Internationally, the CCCE is the leading voice of Canadian business on economic, trade, environmental and security issues.

On environmental issues, the Council has a long history of constructive engagement. The CCCE was one of the first organizations to declare support for the concept of sustainable development as articulated by the *World Commission on the Environment and Development* in 1987. In 1988, the Council formed a *Task Force on the Environment and Economy*, made up of 25 member CEOs. The creation of the Task Force sent a powerful signal that environmental issues were no longer on the sidelines, but had moved to the centre of decision-making in both government and business.

In 1991, in a major report on competitiveness, the CCCE championed the link between high standards of environmental protection and enhanced competitiveness. In 1992, the Council played a key role in mobilizing business input to the Canadian government's preparations for the *World Summit on the Environment and Development* in Rio de Janeiro. And in the advance of the *World Summit*, the CCCE's *Task Force on the Environment and Economy* published a progressive strategy, *Towards a Sustainable and Competitive Future*. Its companion paper, *Business Principles for a Sustainable and Competitive Future*, outlined a set of eight operating principles that it urged businesses of all sizes to adopt. The Council was the first business organization to adopt sustainable development explicitly as an overarching principle and to attempt to express it in terms of operational practices.

In the decade following, the CCCE remained a champion of sustainable development as a cornerstone of attaining Canadian excellence. In a policy paper in 2005, *From Bronze to Gold: A Blueprint for Canadian Leadership in a Transforming World*, the Council laid out a ten-point plan “to make Canada the best place in the work in which to live, to work, to invest and to grow”. Two components of the plan were to forge a clear environmental advantage as part of Canada’s national brand, and to build a Canadian energy strategy that both ensures that our country’s energy resources remain an important source of national advantage and recognizes the need to reduce the carbon footprint of Canadians.

In establishing its new *Task Force on Environmental Leadership* in March of this year and in tabling its Policy Declaration on October 1, 2007, the *Canadian Council of Chief Executives* is reaffirming its leadership role as a champion of sustainable development. The concluding paragraph of the Policy Declaration sums up the CCCE’s commitment. “*The goal of Canada’s business leaders is as ambitious as it is clear: to enable our nation to harness its plentiful energy resources and abundant human skills to become an energy and environmental superpower.*”