

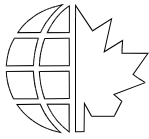
**FROM GREEN TO GOLD: TACKLING THE CHALLENGE
OF CLIMATE CHANGE**

**NOTES FOR REMARKS BY THOMAS D'AQUINO
CHIEF EXECUTIVE AND PRESIDENT
TO THE CALGARY CHAMBER OF COMMERCE
CALGARY, ALBERTA, JUNE 24, 2008**

It is a pleasure to be here again in Calgary, the heart of Canada's energy sector and a tremendously important engine of our economy. One of the defining Canadian stories of our times is the growing economic power of the West, and how that is starting to transform the federation. Last month here in Calgary, we at the *Canadian Council of Chief Executives* heard and saw firsthand the spirit of confidence that is driving this dynamic region. We were privileged to host each of the four Western Premiers in open discussion over two days, and were mightily impressed with what they had to say. As business leaders, our clear mission is to build on this opportunity and translate it into benefits for the whole country.

It is readily apparent that the world will need increasing amounts of all forms of energy -- oil and gas, coal, hydro, nuclear, wind and other renewables to meet the aspirations that all countries have for a higher standard of living for their people. We have an enormous opportunity to develop Canadian energy resources and advanced energy products and technologies that can be the model for the world and help lead the transition toward ensuring that future economic prosperity is coupled with superior environmental performance.

But to make this happen we need a clear vision and a sound set of policies, and this is what I would like to talk to you about today.



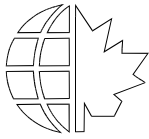
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The Prime Minister has spoken of how Canada can be a clean energy superpower, an ambitious view I share wholeheartedly. But there is too little understanding of the role and importance of Canada's energy industry, both here at home and internationally. In my travels, I have spoken to many Americans -- business executives, politicians and opinion leaders. Far too few of them are aware that Canada is their largest supplier of imported energy. And far too often, their impressions of Canada's energy and resource sectors are based on misleading information and shoddy research.

It should be obvious to our American friends that they have no more secure energy supplier than Canada. And for those who choose to malign Canada's oilsands and suggest that the United States should refuse to buy its products, one must ask, whom would they prefer to see supply the U.S. market -- Venezuela, Iran, Saudi Arabia, Russia, Nigeria? Can anyone seriously suggest that either the interests of the United States or those of the global environment would be better served by such an outcome?

The environmental record of Canada's energy sector speaks for itself, both in terms of its commitment to responsible development and its adherence to all government regulations and assessments. I daresay that no other industry undergoes such rigorous scrutiny.



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The contribution that the energy sector makes to the rest of the country is equally clear, in terms of spinoff benefits to other sectors, jobs, and tax payments to all levels of government. Simply put, Canada would not enjoy the economic success it does without the contributions of the companies and the men and women who work in the energy industry.

I know the Canadian energy industry is working hard to counter the myths and misrepresentations. No one else is going to tell that story for us.

In particular, we need to ensure that Canadians understand the vital link between energy and competitiveness. Certainly we hear a great deal of talk these days about energy and the environment -- about rising prices for energy, about the risk of global climate change, and about Canada's responsibility to help bring about a reduction in worldwide emissions of greenhouse gases. We also hear quite a lot -- although perhaps not enough, in my view -- about the challenge of ensuring that Canadians and Canadian companies are equipped to compete and win in global markets.

For the most part, however, public discourse in Canada treats these two great challenges as though they were separate and contradictory. Indeed, many of the loudest voices in today's debates about energy and the environment belong to people who are convinced that a



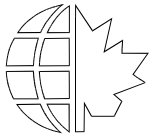
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healthy environment and vigorous economic development are mutually irreconcilable. This kind of thinking leads some to conclude that the only solution to the risk of climate change is to scale back energy production and to force Canadians to accept what inevitably would be a lower standard of living.

That is not my view, and it never has been. In 1989, at a ground-breaking conference on sustainable development hosted by the Government of Manitoba, I set out my views in an address titled *Environment and Economy -- Until Death Do Them Part*. In that speech, I expressed my conviction that reversing the deterioration of the environment on a global basis is the most important challenge facing Canadians and other citizens of the world. I also stated that the solution to this challenge would be found in responsible economic development -- development that harnesses and adapts the positive creativity of technology and market forces. Far from being mutually exclusive, our efforts to foster sustainable economic growth and superior environmental performance can and must be made mutually reinforcing. In short, a healthy environment and a healthy economy are two sides of the same coin.

For close to 20 years, the *Canadian Council of Chief Executives* has embraced this fundamental principle and made it a cornerstone of our work on Canadian competitiveness. We have pointed out that, as the



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beneficiary of so many natural resources, Canada has both an opportunity and a responsibility to make the best of its natural wealth. We have maintained consistently that public policy should encourage greater conservation and waste reduction as well as more investment in renewable energy and innovative environmental technologies. We have said that Canadian businesses must expand their efforts to develop and deploy new technologies that will reduce the environmental impact of their production.

Over the past two decades, Canada has made a great deal of progress in cleaning up our air and our water. The concept of sustainable development is now widely understood and accepted at all levels of society. In their operations here and around the world, Canadian-based enterprises have been leaders in demonstrating how enhanced environmental performance adds value and contributes to long-term success.

Yet in one area, Canadian public policy has so far failed to achieve any sort of meaningful consensus. I am referring, of course, to the challenge of climate change. For too long, our governments talked a good game on climate change but offered little in the way of policy substance. During the Kyoto negotiations, the federal government accepted an ambitious target for Canada without any meaningful analysis of its impact and without any realistic strategy for achieving its objectives.



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As years slipped by and deadlines approached, political leaders offered grandiose gestures and sweeping promises, but no concrete plan and no straight talk about the tradeoffs and sacrifices that would be required to get anywhere close to meeting our international obligations. Far from leveling with Canadians about the implications of climate change policy, every effort was made to downplay the likely costs and impacts.

As business leaders, we recognize that finding a consensus on the best path forward on an issue as complex as climate change is no easy task. We also accept that the business community itself has an important role to play, both directly in helping to bring down the level of GHG emissions and indirectly by working with our suppliers, our customers and our employees to develop the solutions that will be needed as Canada makes the transition to a low-carbon economy.

That is why, a little over a year ago, my Council took the decision to create our *Task Force on Environmental Leadership*, which I co-chair, along with Richard Evans, the CEO of Rio Tinto Alcan, and Richard George, the CEO of Suncor Energy. The *Task Force* pulled together 33 chief executives from across Canada and drawn from a wide range of leading industries -- both energy producers and energy consumers. Together, we forged an unprecedented consensus among Canada's business leaders, which we laid out last October in a Policy Declaration



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titled *Clean Growth: Building a Canadian Environmental Superpower*. At its core are five key propositions that can form the basis of an effective, sustainable and long-term plan, one that would not only be successful in reducing Canadian GHG emissions but that could also make a significant contribution to a global solution.

The first element of our proposal is a more integrated approach to climate change policy, involving all parties in Parliament and all levels of government -- federal, provincial, territorial and municipal. Over the past year, the federal government and a number of the provinces have come forward with their own separate plans to restrain GHG emissions, and among these various initiatives there are many sound and promising ideas. Unfortunately, and despite some recent efforts to coordinate the actions of certain provinces, we are still faced with a mosaic of different timelines, different targets and different mechanisms.

As business leaders, our strong preference would be for Ottawa and the provinces to agree on a coherent policy framework and a common set of principles so as to ensure that business and consumers across Canada are treated equally. I want to be clear that we are not calling for a single, top-down plan that fails to take into account various regional interests and concerns. We recognize that different jurisdictions may choose different paths to achieve similar outcomes.



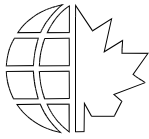
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Nevertheless, we believe it is important that governments strive for the highest possible degree of policy cohesion and compatibility, so as not to disadvantage consumers and businesses in one part of the country relative to those in other regions. Equally important, we believe that any plan to address climate change must apply to *everyone* -- large and small businesses, consumers and farmers, building owners and public institutions. All will have to do their part if Canada is to achieve real and meaningful reductions in greenhouse gases.

Another key element of our proposal is to recognize the absolutely fundamental role of technology. There is simply no way to make meaningful reductions in GHG emissions, either in Canada or globally, without massive investments in new technologies. Business leaders in the Council see this as a tremendous opportunity since Canada has both the natural resources and the technical and financial skills to be a leader in next-generation technologies such as clean coal, carbon capture and storage, nuclear, hydro, wind, biofuels and other alternative energies.

Most of this innovation will have to come from the private sector, so it is critical that businesses not be hampered by poorly conceived policies that limit their capacity to develop and deploy advanced technologies which can deliver improved economic and environmental performance. To succeed, Canada will need a robust set of policies that



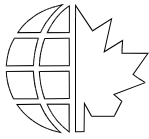
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support research and development of next-generation products and services, as well as innovative approaches such as public-private partnerships to guide the implementation and commercialization of key technologies.

A third element of our Policy Declaration recognizes the importance of targets as a spur to environmental progress. 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. At the same time, it is important that any target applied to Canadian industry recognize competitive realities and be set within an overall policy framework that allows profitable firms to increase their investment in new technologies.

A fourth necessity is to ensure that globally we have an effective and long-term plan that commits all major emitting countries to do more to constrain the growth of emissions around the world. I believe Canada can be a model to the world in demonstrating how to align public policy to strengthen economic and environmental performance.



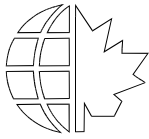
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Success in addressing global levels of GHG emissions will take many years. Through the United Nations process, the international community is currently grappling with appropriate targets for 2020 and 2050. But business around the world needs greater confidence that a sound international framework will emerge that is responsible, transparent, equitable and sustainable.

Canada can be a key player in pushing for a broad international agreement that recognizes appropriate responsibilities for all nations. But it is not just about setting ambitious-sounding targets. Developing countries have legitimate aspirations for economic growth and enhanced opportunities for their people. So we will need to find a formula that speaks to each country's strengths and opportunities while plotting a course that can slow, stop and eventually reverse the current trend of growing global GHG emissions.

We at the Council are under no illusion that this will be an easy task. But Canada's role can be critical in trying to bring the international community to a stronger consensus on the best path forward. Through our actions and policies here at home we can demonstrate to developing countries in particular that ambitious environmental goals can go hand-in-hand with economic success.



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The other important dimension of Canada's approach to this issue internationally is how we align energy and environmental policy in our key trading relationships. It seems to me self-evident that Canada's interests lie in formulating and pursuing with our continental neighbours a sound North American approach.

The United States is our largest trading partner and energy customer, and that suggests a considerable degree of alignment between our two countries on climate policies. Among other priorities, we need to strengthen and expand our existing cooperation on technology -- especially when it comes to areas such as carbon capture and storage, clean coal, biofuels and advanced automotive technologies.

That brings me to one of the most critical elements of our paper -- one that has become the focus of increasingly contentious public debate. In *Clean Growth*, we endorsed the use of price signals as a means of persuading businesses and consumers to reduce their emissions of greenhouse gases. We noted that governments could put a price on carbon either through environmentally linked taxes or through 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. We pointed out that both approaches present many challenges, but added that these issues could be addressed with proper design.

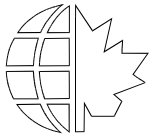


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Again, let me be clear: we have not specifically endorsed one policy instrument over the other. Both emissions trading and environmental taxation have their advantages and their challenges. Cap-and-trade schemes have the advantage of a defined limit on emissions, but experience, especially in Europe, suggests there can be significant price volatility and difficult questions about the fair allocation of emissions rights. Environmental taxation provides a clearer price signal and can be easier to design and administer. Relying solely on taxation, however, does not guarantee any particular quantity of emissions reductions.

Recognizing the tradeoffs, we remain open to both approaches, but believe strongly that whatever policy instruments governments choose, they must be transparent, stable and predictable. They should make maximum use of market forces and minimize complexity and compliance costs. Policies should be designed in a way that does not give any one sector or region an unfair advantage, and in particular should avoid significant interprovincial wealth transfers. The goal should be to maintain a competitive playing field domestically, while positioning Canada within a globally inclusive framework for meaningful, long-term action on climate change. Policies must be designed so that industries and consumers are not merely penalized, but have positive reasons to take action.



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At the same time, we have to be realistic about the ability of the public and industry to adapt quickly to any new carbon-pricing regime. Indeed, while Canadians have been debating the best way to put a price on carbon, the market already has been working to reduce demand for carbon-based fuels. The price of a barrel of oil has more than doubled over the past year, with far-reaching consequences for our economy. Already, sales of trucks and SUVs have plummeted, eliminating thousands of manufacturing jobs. Consumers are buying smaller vehicles, driving less and altering their vacation plans in response to higher gasoline prices. Airlines are laying off thousands of employees and abandoning routes because of higher fuel costs. In the United States, the recent spike in fuel prices is even getting part of the blame for the downturn in real estate prices, as homebuyers begin to turn away from houses in less centrally located neighbourhoods.

As these and countless other effects of higher energy prices take hold, millions of Canadians will be forced to make difficult, sometimes painful, decisions. In the current environment, I believe that governments should be careful not to impose substantial additional costs on consumers and businesses that could seriously damage economic growth. The wiser course of action would be to start by placing a relatively modest price on carbon emissions, while making it clear that the levy will rise in the future once Canadians have had time to adjust to higher market prices. This would give governments an



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opportunity to experiment with different policy tools and approaches without the risk of unintended negative results. The goal should be to send a clear signal to consumers and businesses that higher prices for carbon-based fuels -- whether as a result of market forces or through some combination of market forces and public policy -- are here to stay.

So those are the five key elements of our Policy Declaration on climate change. How realistic is our prescription? My view, based on extensive discussions with policymakers, business leaders and climate experts in Canada and elsewhere, is that our recommendations are both ambitious and achievable. And a growing number of major players appear to share our perspective. Earlier this year, the National Round Table on the Environment and the Economy (NRTEE) submitted its final Advisory Report on long-term reductions of greenhouse gases and air pollutants. I was pleased to see that its main recommendations closely paralleled those of our own *Task Force*. By the same token, there is much common ground between our approach and the new report on climate change strategy that was published this month by an Independent Task Force of the *Council on Foreign Relations* (CFR).

If you have not had a chance to read the CFR report, I strongly recommend that you do so. The Independent Task Force consisted of 29 highly regarded individuals from business, the environmental



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community, industry, labour, and academia, and included prominent officials from both the Bush and Clinton administrations. Chaired by former governors George Pataki of New York and Tom Vilsack of Iowa, the panel urged the United States to pursue ambitious, comprehensive and equitable actions at home while at the same time working toward the goal of a global deal that includes strong commitments from the major emerging economies. On the specific question of market instruments, the CFR Task Force recommends a cap-and-trade system that begins reducing emissions now and that sets a course for cuts of between 60 and 80 percent from 1990 levels by 2050 -- targets that should be revisited and revised periodically. Such a strategy, the Task Force notes, "can and should be designed in a way that avoids shocks to the economy and that does not impose undue burden on any particular part of society."

This strikes me as an eminently reasonable course of action, and very much in keeping with our own thinking. 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.

At this point, you may be wondering how the climate change strategies advocated by our two major federal political parties stack up against the principles outlined in *Clean Growth*. As you know, the



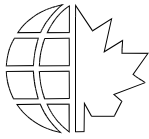
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Conservatives and the Liberals have taken two very different approaches to this issue. We see positive elements in both plans -- but we also have major concerns about the specifics of their respective proposals.

The Conservative government's regulatory plan for industry would set extremely ambitious targets for improvements in GHG emissions intensity -- 18 percent over three years, and then a further two percent every year thereafter. Companies unable to realize that scale of reduction can pay into a technology fund, but that option is limited and will be phased out in a few years, just about the time the private sector's investment in new technologies will need to ramp up if they are to maximize their contribution to achievement of Canada's environmental goals. So let's be clear: the government plan imposes a heavy burden on Canadian business. And yet at the same time, the Conservative plan fails to impose any real restraints on the other 50 percent of Canada's greenhouse gas emissions. For consumers, the plan mainly offers incentives and subsidies -- measures that have been tried in the past without much success.

And what of the plan unveiled last week by Liberal Leader Stephane Dion? The Liberals' "Green Shift" would rely on a broad-based carbon tax applied to virtually all fossil fuels as the principal means to address the responsibility of both industry and consumers. But the numbers



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clearly show that the large majority of the revenue raised will come from Canada's most carbon-intensive industries, and that the bulk of the offsetting tax deductions will flow to Canadian households.

I am afraid that, based on the details we have seen to date, neither of these two plans reflects a full understanding of the competitiveness challenge faced by Canada's energy-intensive and trade-exposed industries. The task of protecting our environment while securing long-term economic growth will require a concerted effort by all sectors and citizens, and we as business leaders are committed to working with the government and all political parties, at all levels of government, to ensure that we succeed.

As we said in *Clean Growth*, 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. The key is to shape sound public policies that reinforce the desire of individuals and companies to reduce their environmental impact and that strengthen their ability to invest in the new technologies, products and processes that will make the greatest difference domestically and globally. Only then will we be able to achieve what Canadians want, need and deserve: both a strong economy and a cleaner environment.