

GLOBAL CLIMATE CHANGE
A STRATEGY FOR CANADA
AND THE ENVIRONMENT

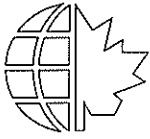
Notes for an address by

Thomas d'Aquino
President and Chief Executive
Business Council on National Issues

to the

Annual Policy Conference
Canadian Industry Program for Energy Conservation

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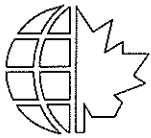


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It is a pleasure to be here today to speak to the Annual Policy Conference of the Canadian Industry Program for Energy Conservation (CIPEC). Your organization, through its focus on improving energy efficiency in Canadian industry, has played an important role in demonstrating how business can contribute to key environmental objectives while also reducing costs and boosting competitiveness.

It is this very idea that I will address today in the context of the climate change issue. For if we are to tackle this issue successfully, it is imperative that we find a way to deal with it that can also contribute to economic growth, to new investment and to job creation. How that solution is finally arrived at will be critically important to Canada. I am sure that I do not have to remind any of you why this is so. The Canadian economy and indeed our way of life has been built to a considerable extent on the production, use and export of fossil fuel energy. Simply put, what the international community agrees to do about this issue could have a profound impact upon the Canadian economy and our standard of living for many years to come.

In addressing how the Business Council is approaching this issue, let me take you back almost ten years, to the late 1980s. Environmental issues were at the very top of Canadians' concerns, we had experienced the terrible accidents at Bhopal and Chernobyl, and some scientists were beginning to ring alarm bells about the threat of global warming. Within the Canadian business community, environmental issues were very much at the forefront. At the BCNI, we recognized that the environment could no longer be treated as an "externality". We realized, in fact, that it was at the heart of how we ran our businesses. Environmental issues were increasingly taking up our time and our resources, and it became apparent that improving environmental performance, by minimizing waste and emissions and by reducing



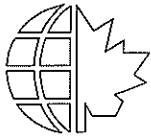
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energy and resource inputs, was also good for the bottom line. Similarly, it was increasingly recognized that competitive advantage comes in the form of new products, processes and technologies with lower environmental impact. And demands for business to be more environmentally responsible were being made, not just by environmental activists and governments, but by our employees, our bankers and our shareholders.

This new recognition of the interdependence of the environment and the economy was given the name "sustainable development" in the ground-breaking report of the Brundtland Commission in 1987. At the heart of the report was a recognition that environmental and economic progress go hand in hand. And this is true not only for Canada, but for all nations alike, for if we are truly to address some of the most worrisome international issues -- overpopulation, poverty and resource depletion -- we can do so only through environmentally sustainable economic growth in all regions of the world.

In its business application, sustainable development is sometimes described as "eco-efficiency"-- the ability to produce profitably more goods and services of higher quality, while using fewer resources. And it is this philosophy that drives many of the most successful and competitive enterprises today -- if you will, the marriage of corporate social responsibility with improved environmental and economic performance.

As I mentioned, nowhere is the need to foster sustainable and mutually supportive economic and environmental policies more evident than when it comes to the issue of global climate change. For if we do not foster, as an international community, an approach to this issue that supports both economic growth and sustainable energy consumption



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over the longer term, we will have little hope of solving the other pressing global challenges.

And so, the real question is how do we craft a truly global approach that can achieve these objectives. Quite frankly, we are concerned that the current international negotiations under the United Nations Framework Convention on Climate Change have not adopted such an approach. I will take a few moments to outline our concerns, before moving on to describe what I hope could be a more rational and effective strategy.

The first difficulty with the Berlin Mandate negotiations is the focus on short-term reductions. These are likely to be very expensive for Canada and many other developed countries. Not only will this approach be difficult to sell politically in those countries, but this single-minded focus does little to address the overall strategy that will be needed to carry us well into the next century. It is my contention that only a strategy which fully responds to the long-term nature of the problem, and which satisfies legitimate desires for growth in many regions of the world, will be successful ultimately.

My second point is that climate change is a risk and we should be adopting a prudent risk management strategy to deal with it. I know that the people in this room appreciate the uncertainties in the science of climate change. Many of the more alarming predictions about future climate effects are based on general models of what may happen, yet these same models are rather poor at explaining current climate trends. And the Intergovernmental Panel on Climate Change, the main scientific body for the convention, itself has pointed out the difficulty of distinguishing human-induced changes from natural variability.

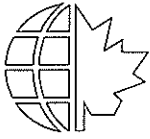


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I point this out not because I want to dispute the science -- I certainly do not have the credentials to do so -- but to emphasize that a prudent risk management strategy would suggest a balance between the likely economic cost of hasty, short-term action against the environmental cost of waiting too long. This approach makes sense when we consider that the ultimate aim of the climate change convention is to stabilize concentrations of greenhouse gases sometime in the next century at a level that prevents dangerous human interference with the climate system. Recent studies have suggested that there are a number of emissions pathways that could be used to get to any particular concentration level. However, the cost of doing so can vary greatly, depending upon which pathway is chosen. Accordingly, it is not a debate about whether to take action, but the timing of such action -- whether the focus is on expensive reductions in the early years, or a longer timeframe is adopted that allows for the natural turnover of capital stock and the development and utilization of new technologies and lower carbon forms of energy.

My third point is that, under the terms of the Berlin Mandate, new commitments will be limited to the developed countries. And yet, the evidence is clear that by early in the next century the developing countries will account for more than 50 percent of world emissions of greenhouse gases. Thus, the current process is likely to impose significant costs on the developed countries -- and, we must not forget, on developing countries as well since the markets for their goods in the face of economic cutbacks will shrink -- without providing a long-term solution to the problem.

Fourth, from a Canadian perspective, we have to be concerned about the equity of the likely outcome. A number of economic studies have shown that Canada will suffer a disproportionate impact from policies



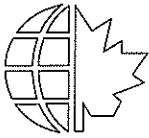
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aimed at controlling emissions. The results of a recent study in Australia illustrate this point, and are shown in Figure 1^{*}. The energy-intensive nature of our economy, and the relatively low carbon intensity of our energy mix means that our options to make significant reductions are more limited and more expensive than for other OECD countries. As well, our reliance on exports for a significant portion of our GDP means that we will be hurt by the contraction of economic growth among our major trading partners resulting from climate change policies.

I know that these concerns are shared by you and many others in the Canadian business community. And we have pointed out the flaws in the current process to Canadian political leaders and officials. In fact, the Business Council, through our Task Force on the Environment, has been working with some twenty major business organizations in Canada to ensure that the concerns and interests of a broad cross-section of the Canadian business community are brought to bear on this issue.

Is the message from the business community on climate change one of do nothing? Certainly not. The efforts of CIPEC members over twenty years demonstrate a commitment to improving energy efficiency. More recently, the commitment of 600 companies who have joined the climate change voluntary challenge is evidence that the private sector takes seriously the need to limit emissions of greenhouse gases. We have asked a couple of simple questions -- is there a better way to approach the international dimension of this issue, one that can satisfy the concerns of many countries to reach an equitable solution that

* See attachment to this address



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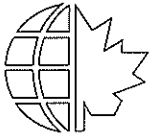
recognizes differing national circumstances and capabilities? And what should Canada's role be in trying to bring about this result?

We think that the Canadian government should be playing a constructive role in leading the international community to a sounder and more realistic agenda on climate change, one that recognizes the long-term nature of the issue and the necessity of ensuring an equitable contribution from all countries, both developed and developing, and all sectors of society, business and consumers.

As United States Under Secretary of State Tim Wirth said in his statement to the Second Conference of the Parties in July of this year, the current proposals on the table for significant short-term reductions are neither realistic nor achievable. They do not provide sufficient flexibility to ensure that the solutions are cost-effective on a global basis, and in addition, they are inconsistent with fostering national and international prosperity. Indeed this must be the standard by which we judge any policy -- one that achieves maximum effectiveness in terms of dollars spent per ton of greenhouse gases, and that does not compromise legitimate desires for economic and social progress.

There are a number of elements which in my view should make up this strategic approach and which will require commitments from all players if it is to be successful. The ideas fall neatly within a ten point strategy which I will outline for you very briefly.

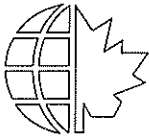
- Point one: we should recognize that whatever goal is eventually set will have to be for the long-term -- well into the next century -- and possibly on the basis of concentrations, once the science tells us more about what those concentrations should be. Given that the next complete assessment of the science by the Intergovernmental



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Panel on Climate Change (IPCC) will be in the year 2000, it would make sense to await that step before pronouncing the ultimate target. In the meantime, we can consider adopting a shorter term target or objective that is more realistic and achievable for the international community -- possibly a stabilization target but over a more realistic timeframe.

- Point two: we should set new commitments in a framework which recognizes that countries have differences in starting points, in economic structure and in energy intensity and energy mix, and must set policies and goals that are consistent with other national priorities. This is of course true for the developing countries, but substantial differences also exist between developed countries. One only has to contrast the way that Germany and the United Kingdom, on the one hand, approach this issue with the concerns raised by Australia to see that this is so. It may be that the only way to get agreement within the international community is through a process of differentiated commitments. For example, Australia has suggested a scheme of differentiation based on criteria such as population, energy intensity of GDP and changes in per capita welfare as a result of climate change policies. These and other creative ideas should be examined closely. I do not underestimate the difficulty of concluding such an arrangement, but a set of differentiated but verifiable targets may be the answer over the medium term.
- Point three: any new commitments clearly must include the developing countries, although for equity reasons this may need to be on the basis of differentiated commitments. As I have noted above, a global solution is not possible without their eventual involvement. Establishing a longer timeframe for commitments



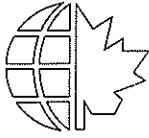
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could provide the mechanism to bring them on board at a later date. But we should not expect this to happen without some corresponding commitments from developed countries. I am not speaking here about massive increases in foreign aid, although these are unlikely in any event. We will have to consider how new investment and transfers of technology can contribute to these goals, and be prepared to support both government policy and private sector action that can make a difference.

- Point four: the full creativity of business and the marketplace must be harnessed. This is the only way to ensure that measures chosen are ones that will achieve real benefits relative to their costs. Indeed, the Framework Convention itself states that “policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible costs.” Creative market devices such as emissions trading must be examined to see if such a scheme can bring about results in a lower cost manner. Figure 2* presents the results of a recent study in the United States and illustrates the potential cost savings through use of emissions trading.

A truly global approach to emissions reductions, through initiatives such as joint implementation, would allow countries where abatement costs are relatively high to offset these costs through projects in countries with relatively low emission reduction costs. Not only would this lower the global cost of addressing climate change, but it would also bring badly needed investment to the developing countries. I recognize that some developing countries are skeptical of joint implementation schemes and regard them as

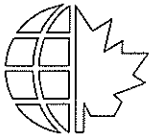
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an attempt by developed countries to bypass their obligations. Accordingly, we will have to do more to develop the business-to-business relationships that will make these initiatives work, and to establish useful pilot projects. The European Union has suggested recently that joint implementation should operate initially only within Annex I countries. In my view, this would limit unnecessarily the search for low cost reduction opportunities, many of which lie outside of Annex I in the developing countries. If the international community at present is reluctant to consider international credits for joint implementation, our government must be prepared to look at a system of meaningful credits in Canada, possibly through the tax system, to make such projects happen.

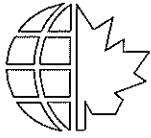
- Point five: the business community must demonstrate its commitment to cost-effective actions to limit greenhouse gas emissions. Accordingly, we must broaden the voluntary challenge and encourage our suppliers, customers and competitors to become involved. Energy efficiency can reduce costs and improve the competitiveness of Canadian industry and we must expand this message. Organizations such as CIPEC have been very effective in doing so. We know that meeting the current stabilization target will be a difficult challenge given that we also want to foster economic growth and job creation. And no one should be under the illusion that the voluntary challenge will by itself deliver stabilization. But we must be prepared to demonstrate continuous improvement on the part of the business community, and be prepared to set objectives for ourselves and show verifiable progress even within the context of a voluntary program. We can and should improve the quantity and quality of VCR action plans and ensure that our internal systems provide the incentives to look for opportunities to reduce greenhouse gases. The business community has demonstrated in



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the past that strong environmental performance is good for the bottom line and we must do so again.

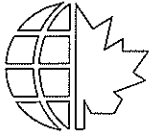
- Point six: investments in R&D must be re-directed to climate-friendly technologies in renewable and non-renewable energy. While Canada cannot be a world leader in all areas of technology development, we certainly have some niche capabilities, and we must also be leaders in the adaptation and deployment of technology. Government policy also should support technology development in this area and provide the appropriate incentives to private sector research and technology deployment.
- Point seven: consumers will have to understand that they must be part of the solution. We all know that energy usage is closely tied to lifestyle. It is inconceivable that we could accomplish significant reductions in emissions without the full participation of individual Canadians in terms of their use of all forms of energy. Clearly, there are not the government dollars there once were for massive public education programs or grants for energy conservation, and so public sector efforts will have to be targeted and selective. This is one area where environmental groups can play a catalyzing role by promoting energy efficiency. Businesses will have to work with their customers in encouraging the wise use of energy. We showed our creativity in responding to market demand in the 1970s and we will have to do so again.
- Point eight: business must support the Canadian government in developing a position that argues for a longer timeframe for commitments. As I indicated earlier, one of the biggest advantages of adopting a longer timeframe is that it takes advantage of the natural turnover in energy consuming capital stock. When allowed



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to run its natural course, capital stock turnover can bring substantial economic and environmental benefits, because it leads to industrial modernization and such equipment usually uses less energy and has fewer emissions. A study which the BCNI is coordinating will attempt to point out the benefits of awaiting the natural turnover of capital stock in major energy consuming industries that will support emissions reductions over a longer term. And while we are supporting the longer term agenda, business should be pointing out specific policies and measures that would bring about reductions in emissions in the short to medium term, and should assist the government in defining some interim milestones that would indicate progress on the longer time path.

- Point nine: and closely linked to the longer term agenda, are innovative policies that promote flexibility in the timing of actions. Cumulative emissions targets or emissions budgets would allow countries to set reduction pathways that make sense for their individual circumstances. A total emissions budget could be set for a country or group of countries. Rather than cutting emissions by a specific percentage every year, this approach could maximize efficiency by allowing lower reductions in the early years when costs are high. Figure 2 illustrates the potential cost savings from such an approach.
- Point ten: we will have to think carefully about an enforcement mechanism for the convention. The United States has argued for a “legally binding” commitment to come out of the Berlin Mandate negotiations. They also have insisted that the new target be realistic and achievable. This is in contrast to the current stabilization target, which few countries will meet, or the more radical reduction scenarios put forward by Germany and the Alliance of Small Island



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States, which the United States has rightly indicated lack flexibility and would impose a significant burden on many countries. The enforcement mechanism is important because if the United States does sign on to a legally binding commitment, we have to be concerned about the propensity of Americans to use trade weapons against nations who they regard as falling short of meeting their commitments. Linked to the issue of enforcement is the necessity to develop internationally standardized methods for measuring greenhouse gas emissions and a process for verifiable reporting among nations. Without a means to quantify real action by all nations, the likelihood of failure of the convention is too great.

Ladies and gentlemen, I leave you with these thoughts and with some concrete suggestions on how to deal with the extraordinary challenge of climate change -- a subject which United States Under Secretary of State Tim Wirth has described as "probably the most complicated scientific, environmental, economic and political challenge in history". I doubt that few in this room would disagree.

In the coming months, and for many years to come, the best that the Canadian and the global business communities can offer in ideas, innovation, resources and leadership will be required if the challenge of climate change is to be met in an equitable and sensible way -- in a way that promotes both environmental and economic responsibility. We at the BCNI look forward to playing our part and to working closely with you.

