

A BUSINESS CASE FOR RESPONSIBLE CLIMATE CHANGE



Thomas d'Aquino

Ottawa has failed to answer the question of how much it would cost to implement Kyoto and who would pay for it. Jean Chrétien plans to ratify it first and figure out how to accomplish it later. Not good enough, writes the President of the country's pre-eminent business lobby, the Canadian Council of Chief of Executives, who urges consultations and a made-in-Canada solution.

Que coûterait la mise en œuvre du protocole de Kyoto et qui en paierait le prix ? Ottawa s'est montré incapable de répondre à cette question. Selon Jean Chrétien, il faut d'abord ratifier le protocole et déterminer ensuite ses modalités d'application. Grave erreur, soutient le président du Conseil canadien des chefs d'entreprise, principal groupe de pression des milieux d'affaires, qui exhorte à la consultation et à une solution proprement canadienne.

In 1997, the federal government picked a number out of the air and agreed that Canada's commitment under the Kyoto Protocol should be to reduce its emissions of greenhouse gases (GHG) to 6 percent below 1990 levels. Canada's acceptance of this target, well in excess of the targets adopted by comparable economies such as Australia, New Zealand and Norway, was in direct violation of the government's understanding with provincial governments and was not based on any prior analysis as to its costs or even feasibility. Rather, it was driven by Prime Minister Jean Chrétien's personal desire to have Canada look better than the United States if possible and at the very least to stay within spitting distance of whatever target the Americans accepted.

In the five years since the Protocol was signed, the federal government has yet to come up with a credible plan showing Canadians how and at what cost Canada's target might possibly be achieved. In the meantime, Canada's supposed rival for international prestige has abandoned the Kyoto Protocol altogether, as has Australia.

The business community is fully supportive of aggressive action to reduce emissions, not only of greenhouse gases but also of other pollutants. The Kyoto Protocol, how-

ever, is both an ineffective way to address climate change and is unsuited to Canada's circumstances.

There are a number of reasons why achieving the Kyoto target will be difficult at best. First, Canada's cold climate and long transportation distances make us intense users of energy. These same factors have made Canadians efficient energy users already, but meeting the Kyoto Protocol target would require Canadians to cut their emissions by 30 percent within the next six to ten years.

Such a target and timeframe cannot be achieved without major transformations in personal lifestyles. And on a purely practical level, the reaction to recent market-driven spikes in natural gas and electricity costs suggests that neither voters nor political leaders are prepared to support price changes that would be significant enough to change consumer behaviour to this degree.

Second, Canada's emissions continue to grow because of our exports, which now account for nearly 45 percent of Canada's output. Even when increased exports of relatively clean Canadian natural gas reduce global emissions by replacing higher-emission coal for power generation in the United States, Kyoto penalizes Canada.

Third, Canada's emissions are growing because of immigration. More people use more energy, and Canada is the only remaining country with a reduction target under Kyoto that also has a growing population. But Kyoto sets a cap on emissions regardless of population. Unless Canada is prepared to slow down the flow of immigration so essential to our economic and social vitality, Canadians would have to cut emissions by a greater percentage than people in other countries with stagnant populations.

Business leaders agree that all countries, all companies and all individuals do need to take action to reduce emissions. But even Canada's Environment Minister, David Anderson, has now admitted that the Kyoto Protocol is not needed to stimulate such action. In a recent open letter to Nancy Hughes-Anthony, President of the Canadian Chamber of Commerce, Mr. Anderson noted the impressive range of actions being taken within the United States to reduce GHG emissions:

Texas is making massive investments in wind power; the New England states have set CO₂ reduction targets and are organizing an emissions-trading system. California—the eighth-largest economy in the world—is about to implement the toughest tailpipe emissions standards on earth. There are some 40 U.S. states that are taking climate change measures.

All this activity is happening despite the United States' decision not to ratify the Kyoto Protocol. Whether intentionally or not, Canada's environment minister has therefore accepted the fundamental argument of the business community—that ratifying Kyoto is neither necessary nor the best way to reduce emissions of greenhouse gases and other pollutants.

The most immediate impact of a decision to ratify Kyoto would be on business investment, and not just in the oil patch. Yet Canada would be the only country in the Western Hemisphere to accept a target, and that alone is likely to push investment to other countries with no targets.

A move to ratify the Kyoto Protocol without a clear and detailed implementation plan would compound this damage. Unless Canadian and international investors are given a clear picture of what new rules will affect business costs in the years ahead, they have to assume the worst. Any uncertainty in the implementation plan adds to the risks of making investments in Canada, and is likely to affect not only new investments but also the credit ratings of existing businesses.

Notwithstanding its many flaws, Kyoto might be acceptable to Canadians if it offered a real solution to the threat of irreversible climate change. Sadly, this is not the case. With the United States' non-participation and no reduction goals for developing countries, less than one-third of global emissions will be covered. Emissions from the rest of the world, especially from developing countries like China, India and Mexico, would continue to rise faster than all the countries with targets would cut them. And many of these countries, including some in Europe, are not on track to meet their targets.

Clearly, what is driving the prime minister's approach on this issue is a perceived high level of public support. However, opinion polls also show that Canadians know very little about Kyoto. Also, their support appears to be dependent on a mistaken belief that Kyoto will reduce the risk of weather disasters like floods or droughts, that it will improve urban air quality, and that the choice before Canada is to ratify Kyoto or do nothing about climate change.

The federal government has produced a "draft plan" for implementation. Unfortunately, this brief outline is more of a wish list than a policy blueprint. It suggests goals like having Canadians reduce emissions by one tonne each. But it gives no clear indication of how such goals would be accomplished and leaves a full quarter of Canada's goal, 60 million tonnes of reductions, completely up in the air.

In short, the government has failed to answer the question of how much it would cost to implement Kyoto and who would pay. Yet MPs are asked to endorse the prime minister's plan to ratify first and figure out how to accomplish it later. Surely, there is an opportunity to ask whether there is another way, better for the environment, better for the economy and better for Canada.

More than 35 of Canada's business organizations have joined the Canadian Coalition for Responsible Environmental Solutions in the belief that the best way for Canada to play a leadership role is through an alternative to the Kyoto Protocol, a *made-in-Canada* strategy.

Some Kyoto advocates have tried to shame our country into ratification by arguing that Canada is in danger of becoming a pariah in the environmental big leagues. Nothing could be further from the truth. Last year, the World Economic Forum's Environmental Sustainability Index ranked Canada fourth among the nations of the world.

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Canada's track record as a country is mirrored by what many of our companies have actually done. Canadian companies have been leaders in improving energy efficiency and in developing and using new environmentally friendly technologies. They have invested hundreds of millions of dollars in developments such as fuel cells, carbon capture and storage, and renewable energy, and this is only the beginning.

The track record is especially strong when it comes to combining enhanced economic performance with progressive actions to deal with greenhouse gases. Emissions from the mining and manufacturing industries overall have been held at 1990 levels, despite production increases of 35 percent. As well, technology improvements in the oil sands industry are expected to yield by 2010 a 40 percent decline from 1990 levels in GHG emissions per barrel of oil.

Are we content with our progress? Certainly not. And achieving even higher efficiencies is in our interest. Our quest for continuous improvement will be facilitated by new technologies. But this progress will not necessarily be consistent with the narrow target and timeframe of Kyoto.

Let me conclude therefore with some specific thoughts on the shape and content of the Coalition's alternative strategy. First, it cannot be defined by a single number or a single target. For a start, Canada's business community cannot presume to set a national target for all Canadians—in particular for the tens of millions of Canadian consumers who will be asked to significantly alter their lifestyles in order to advance the country's goals.

The goal of business, however, is to make Canada one of the most energy efficient economies of the world and a global leader in the development of environmentally friendly technologies.

In the pursuit of this goal, the Coalition supports the negotiation of *emission performance agreements* between governments and key industry sectors such as electricity, oil and gas, steel, forest products, mining, industrial chemicals and cement. These agreements would contain a compliance and reporting regime and be based on improvements in emissions intensity per unit of output.

These agreements would not be limited to GHG emissions. They could include other emissions such as sulphur dioxide, particulates and oxides of nitrogen. They also could include commitments to renewable energy options, where appropriate.

Within the context of these performance agreements, industry and governments would examine

the most promising technology options and the timeframe that would maximize each sector's contribution to overall reductions. Collaborative public-private sector work on technology should identify those options that would work best for Canada, as well as those that could be exported to assist other countries in reducing their emissions.

We also propose a national strategy to design, test and implement clean energy technology and innovation. Some of the specific measures of such a national strategy would include: technology adaptation and commercialization; building on Canadian initiatives and leadership in the areas of fuel cells, carbon sequestration and clean coal; the reduction of fiscal and regulatory barriers to the greater use of co-generation in industrial plants; and a tax strategy to accelerate the replacement of existing capital stock and the elimination of tax impediments to investment in new technologies.

An essential and complementary component of a national strategy must include the closest possible co-operation with Canada's leading economic partner, the United States.

The Coalition's alternative to the Kyoto Protocol is ambitious. It goes beyond the key areas of performance agreements and a national technology strategy. It recognizes the need to deal with air pollution, with urban design and transportation systems, with forestry and agriculture practices and with energy conservation strategies.

Canada's model must include direct action not just on GHG emissions, but on a host of global environmental challenges that are infinitely more pressing in the short term: the absence of clean water in hundreds of millions of homes, filthy air in overcrowded cities, deforestation, and the loss of productive agricultural land.

Parliament voting to ratify Kyoto does not constitute a plan, nor it does settle the issue of implementation. Ottawa should undertake a process of genuine consultation with the goal to produce a dynamic and sensible strategy that would not only serve the national interest but also serve as a model to the world.

Thomas d'Aquino is President and Chief Executive of the Canadian Council of Chief Executives, representing CEOs of 150 leading Canadian enterprises. He also is a member of the steering committee of the Canadian Coalition for Responsible Environmental Solutions, and this article is adapted from a presentation on behalf of the Coalition to a group of parliamentarians in Ottawa on November 5.