



CLIMATE CHANGE AND CANADIAN BUSINESS

What Does COP21 Mean for Canadian Business?

Overview

In December, Prime Minister Trudeau will lead a delegation, including the premiers, to the UN climate change conference in Paris (COP21). At the conference, representatives from almost 200 nations will attempt to negotiate a new global agreement on climate change that focuses on reducing green house gas emissions (GHGs), particularly carbon dioxide released from burning fossil fuels.

The Canadian Chamber of Commerce will be attending COP21 and will be sending members periodic briefings on key developments in the negotiating process.

What Is COP21?

The **Conference of Parties (COP)** is an annual meeting of the world's nations that aims to mitigate climate change by focusing on limiting human-induced green house gas emissions (GHGs). It will meet this year in Paris, from November 31 to December 11, for the 21st time (COP21) to assess progress in dealing with climate change and potentially reach a new global agreement.

The international political response to climate change began at the **Rio Earth Summit** in 1992, where the 'Rio Convention' included the adoption of a non-legally binding treaty called the **United Nations Framework on Climate Change (UNFCCC)**, which also has a secretariat under the same name in Bonn, Germany. This convention established a framework for taking action to reduce GHGs, including for negotiating international treaties called "protocols" that may set binding limits on GHGs.

The development of the **Kyoto Protocol** at the Earth Summit was a milestone as, for the first time, binding GHG reduction targets were set for industrialized

countries. The protocol was intended to cover the period 2008-2012. A second commitment period (2013-2020) was agreed in 2012, known as the **Doha Amendment**, at which point Canada withdrew from the protocol.

Also of note, in 2009 at COP15, the **Copenhagen Accord** recognized that the global temperature increase should be kept below 2°C above a pre-industrial average. Furthermore, countries agreed to raise \$100 billion per year by 2020 from public and private sources to assist developing countries in fighting climate-change, for which a **Green Climate Fund** was later established. So far, the **OECD** indicates \$62 billion flowed into climate finance in 2014.

Last year's COP in Lima, Peru laid the groundwork for this year's COP, where all nations have been invited to declare what actions they intend to undertake in a new global agreement on climate change. These national plans, which often include GHG reduction targets, are submitted in the form of **Intended Nationally Determined Contributions (INDCs)**.

Most countries have publicly submitted their climate change action plans in advance of COP21 (called Intended Nationally Determined Contributions, or INDCs).

But Karen Christiana Figueres Olsen, the Executive Secretary of the UN Framework Convention on Climate Change, has calculated the promises offered so far won't constrain greenhouse gases enough. The UN's climate strategy is to keep average world temperatures from rising by more than two degrees Celsius above mid-19th century levels, which is widely seen as the most the world can tolerate without experiencing severe climate change impacts. And the stakes are high. For example, economic and social impacts aside, a recent [study](#) indicates human activity has already reduced the world's wildlife by half over the past 40 years. Now, [estimates](#) indicate a global temperature rise of two degrees by the end of the century will cause one in 20 species to face extinction; a temperature rise above four degrees will cause one in six species to face extinction.

There also remain many extremely contentious issues among nations, such as:

- to what extent developed countries should bear greater burden and offer financial aid to developing countries to help them move toward low carbon economies;
- whether GHG reduction targets will be legally binding and;
- how commitments could be monitored over time.

Why Kyoto Failed

The idea behind the Kyoto Protocol was that wealthy developed nations, that had already industrialized, would set targets to cut their emissions first, while developing nations would join in later. However, the process was fraught with problems. The U.S., which was the largest GHG emitter at the time, signed up for the protocol but never ratified. Canada set targets that many believed were unrealistic to achieve. Canada had committed to cutting its greenhouse emissions to 6% below 1990 levels by 2012, but in 2009, emissions were 17% higher than in 1990. Furthermore, it was believed that aggressively cutting Canada's GHG emissions would significantly harm its economic competitiveness as growing economies such as China, India and Brazil would be able to pollute as much as they wanted. Hence, in 2011, Canada withdrew from the protocol, while Japan and Russia stated they would not take on further Kyoto targets.

The Canadian Target

In August, the federal government submitted a plan to reduce Canada's GHGs by 30% below 2005 levels by 2030; the new government has said it will be more aggressive on climate change. So, when Canadian Environment and Climate Change Minister Katherine McKenna says Canada's pledge will be "a floor level," she is clearly anticipating pressure on all participants to increase their effort. Furthermore, Minister of Global Affairs Stephan Dion stated that Canada supports France's position that targets be reviewed every five years.

On the domestic side, the government has announced it will meet with premiers in advance of the conference on November 23 and within 90 days following the conference to establish a pan-Canadian framework for combating climate change. The government has also promised to put a price on carbon and create, together with the provinces and territories, a new \$2-billion Low Carbon Economy Trust, which will fund projects that reduce carbon emissions under a new pan-Canadian framework (British Columbia and Alberta already capture revenues from their emissions pricing systems).

National Commitments: Where Are We Now?

Most countries have submitted their commitments, known as Intended Nationally Determined Contributions (INDCs). The main emitters of GHGs in order are: China, the U.S., the EU, India and Russia, while Canada is ninth. The EU will cut its emissions by 40%, compared with 1990 levels, by 2030. The U.S. will cut its emissions by 26% to 28%, compared with 2005 levels, by 2025. China pledges its emissions will peak by 2030. India commits to a reduction in emissions intensity but no specific GHG reductions, while Russia plans to limit its GHGs to 70-75% of 1990 levels by the year 2030. Obviously, with all the different base and target years, it becomes very challenging to compare these goals.

Canada's current INDC, submitted by the former Conservative government, pledged to reduce the nation's GHGs by 30% below 2005 levels by 2030. The former government intended to accomplish this through a sector-by-sector regulatory approach coupled with investment in clean technologies. This target is weaker than that of the U.S. as Canada's pledge is estimated to equal a reduction of 21% below 2005 levels of emissions by 2025 (the U.S. plans for 26-28%). However, the Environment and Climate Change Minister has stated that Canada's INDC is a 'floor' from which to build on.

Canada also committed in the Copenhagen Accord at COP15 to reduce GHG emissions by 17% below 2005 levels by 2020. Canada is currently not on track to meet this target.

What Does This All Mean for Business?

Generally speaking, a federal climate change policy will present both costs and opportunities, and some sectors will be more affected than others. COP21 aims for an agreement that sets binding emissions targets for nations, but there is little discussion on ‘how’ countries will achieve their targets. In fact, the draft COP21 text includes virtually no reference to business or carbon markets. Once targets are set, governments will need to craft policies to meet those targets.

In order to curb emissions, you need to reduce fossil fuel use or develop technologies to reduce emissions.

One mechanism for reducing demand and incenting alternatives is placing a price on carbon. Canada already has existing and planned carbon pricing mechanisms, which will cover over 80% of the population when they are fully deployed; a carbon tax in B.C., a cap-and-trade system in Quebec (joined to California and which Ontario will soon join) and a hybrid system in Alberta. Various cap-and-trade regimes and taxes exist in countries all over the world, and of note, China recently indicated its plan to launch a cap-and-trade scheme in 2017.

The Canadian Chamber of Commerce’s Position

The chamber network has long supported action on climate change. At the Canadian Chamber’s most recent AGM, over 98% of delegates voted in support of a resolution “to establish and reach a GHG emission reduction target by 2050” and adopt carbon pricing mechanisms to achieve this target. The resolution also states that these mechanisms must consider competing jurisdictions and the impact on Canada’s global competitiveness.

Recommendations from the Canadian Chamber’s 2015 Resolution: Greenhouse Gas (GHG) Emission Reduction through Economic Instruments

That the federal government:

1. Adopt an approach and mechanisms to combat climate change in order to establish and reach a GHG emission reduction target by 2050.
2. Work with the provinces and territories to:
 - a. Adopt carbon pricing mechanisms that will help realize Canada’s international commitments to reduce GHG emissions. The selection of these mechanisms must take into consideration the actions of competitor jurisdictions and the impact on Canada’s global competitiveness.
 - b. Ensure revenue collected from carbon pricing mechanisms directly facilitate businesses’ transition to a lower carbon economy—and should not go into general revenues. Further, the allocation of that revenue should be objective and transparent.
 - c. Adopt policy instruments that sufficiently price the negative externalities associated with greenhouse gas emissions to achieve this target.

The clean and renewable energy technology sectors clearly stand to benefit from more aggressive policies on climate change. Renewables provide an alternative for power generation to burning fossil fuels, while clean technology solutions can reduce emissions and improve energy efficiency. In the wake of COP21 and a planned new federal policy on climate change, one can expect new sources of finance and incentives to support Canadian companies in these sectors. In contrast, the government plans to fulfill a 2009 G20 pledge to eliminate 'subsidies' for fossil fuel industries, alluding to government loans and preferential tax treatment for exploration activities.

The sweeping nature of the national plan that will be needed to meet Canada's target is daunting. Canadian business will face many serious challenges as it is deployed.

The Canadian Chamber of Commerce will be following the debate closely and advising its membership as national strategies evolve.

Already there are several major issues to follow closely.

Climate policies must be developed in close cooperation with international partners

First, it is important to consider international norms. Should the government decide to 'lead by example' and commit to ambitious emissions reduction targets relative to our trading partners, there could be substantial impacts on Canada's economic competitiveness. This approach could lead to a higher cost for doing business in Canada, encouraging some larger companies to move their operations abroad. Not only would intended GHG reductions not be achieved in a global sense, but jobs at home would be lost and communities negatively affected. In addition, smaller companies unable to innovate to meet expected GHG targets would be at a disadvantage in terms of operational costs and in attracting international capital. It is therefore crucial that Canada develop its climate policies in close cooperation with international partners.

The role of oil and gas in the global energy mix must be recognized

Second, it will be important to recognize the role oil and natural gas will continue to play in the global energy mix. According to the [International Energy Agency](#), even accounting for commitments to COP21, hydrocarbons will still account for three quarters of the global energy mix by 2030. Renewable energy continues to make impressive inroads in the electricity sector, but cannot yet completely fulfill all of humanity's need for power, transportation and other amenities. Canada can play an important role by providing its allies with secure sources of fuels that are produced to high environmental standards. Building the infrastructure needed to gain access to international markets—particularly pipelines, marine terminals and liquid natural gas export facilities—needs to remain on top of the government's agenda.

Climate policies must capture all sources of emissions

Third, there is a risk of focusing climate policies too strongly on regulating emissions from individual industries, such as the oil and gas sector. An ideal climate policy from both an environmental and economic standpoint is one that captures all sources of emissions, including consumers.

A harmonized approach to climate policies is needed

Last, there is a big 'efficiency risk' for Canadian business. Regional approaches designed by each province may be more attuned to the different energy and industrial mixes. Yet, having several different systems at play also creates an administrative burden on businesses that operate in more than one region. The federal government can play an important role in ensuring, to the degree possible, all Canadian jurisdictions adopt a harmonized approach to their climate policies.

As Canada moves ahead with emissions reduction targets, carbon pricing mechanisms and a federal policy on climate change, the Canadian Chamber will ensure business has a strong voice at the table and that Canada's economic competitiveness remains central to the discussions.