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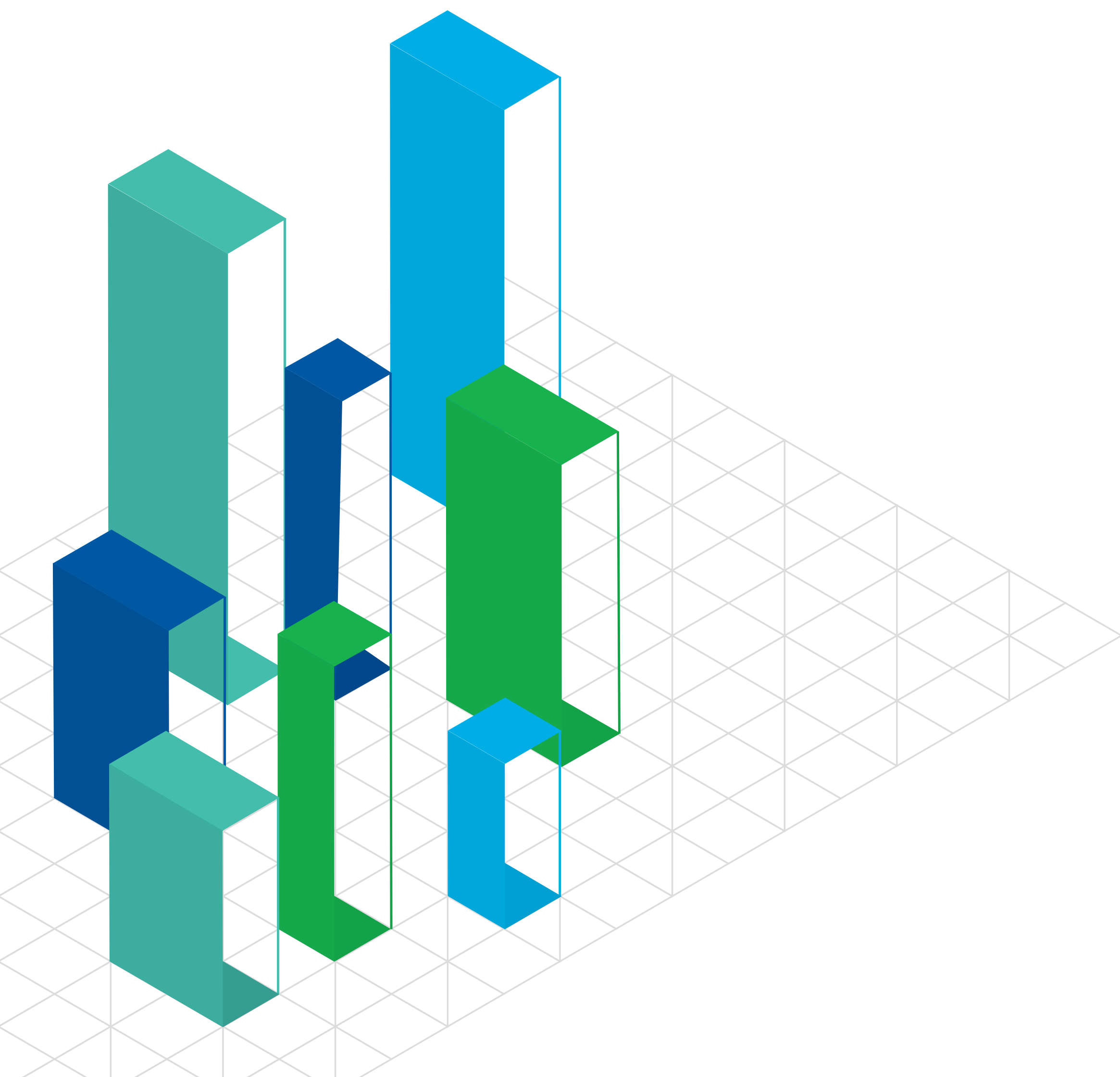
The Path to a Low-Carbon Economy:

Spotlight on Canada 2018



The Path to a Low-Carbon Economy:
Spotlight on Canada 2018

More than two years after signing on to the landmark Paris climate accord, Canada remains steadfast in its commitment to addressing climate change.

But meeting its goals will be challenging. Canada's national plan, the Pan-Canadian Framework on Clean Growth and Climate Change, calls for lowering greenhouse gas emissions to 30 per cent below 2005 levels by 2030. Its 2018 report[1] to the United Nations shows its emissions are going down, but Canada is not yet on track to meet the 2030 goal.

On the provincial level, political support for the framework is in question as several provincial leaders have challenged the federal government's plan for carbon pricing, a linchpin of its climate change agenda.

Despite such potential roadblocks, there's evidence of broad support across Canadian society for the country's shift to a low-carbon economy. Many of its leading businesses are implementing world-class sustainability initiatives and strategies, while sustainable investment is on the upswing and standards for climate-related financial disclosure are being widely adopted.

Reflecting these trends, the third annual Bloomberg Sustainable Business Summit held in Toronto in Sept. 2018 gathered leaders from business, government, finance, and the nonprofit community to share their insights on these topics. The summit was co-hosted by TD Bank Group, continuing a multiyear thought leadership series—the TD-Bloomberg Sustainability Dialogues. This series brings together key influencers for a uniquely Canadian perspective on the transition to a low-carbon economy and considers related challenges and opportunities.

This white paper provides highlights from the 2018 summit and covers some of the latest advances and developments in business strategy and sustainable investing.

"We all know the transition to a low-carbon economy is coming, but we know it will take time. Today, the big question is how do we create a more sustainable future while also enriching the lives of our customers, colleagues, and communities?"

—Andrea Barrack, vice president, global corporate citizenship, TD Bank Group

Shifts in the Political Environment

At the highest levels of Canada's government, there's strong political support for climate action. Prime Minister Justin Trudeau made it a focal point of his 2015 campaign, and he has spoken out strongly on the issue numerous times since, including a statement reaffirming Canada's commitment after the U.S. withdrew from the Paris accord in 2017. In 2018, he forged a France-Canada partnership on climate and the environment.

Yet in Ontario, the government has canceled a carbon pricing[2] plan aimed at reducing GHG emissions. This is significant, because Ontario is an economic engine and home to a third of Canada's population.

Political gridlock won't halt Canada's efforts, but could slow them down by delaying needed legislation or regulatory measures. "We have an ambitious framework, with numerous pieces of legislation moving through the system right now," said Stephen Cornish, chief executive of the David Suzuki Foundation in Vancouver. "Unfortunately, we have some headwinds which could delay the dates they come into effect and how powerful they're going to be."

[1] Government of Canada, "2018 National Inventory Report," https://www.canada.ca/en/environment-climate-change/services/climate-change/greenhouse-gas-emissions/sources-sinks-executive-summary-2018.html

[2] James Munson, "Canada's Carbon Pricing Plan Hits New Provincial Headwinds," *Bloomberg Law,* Aug. 2, 2018

Sustainability is a Business Priority

On the business side, leading companies in Canada are forging ahead with sustainability strategies. Walmart's climate-change mission is focused on energy efficiency and zero waste, said Lee Tappenden, president and chief executive of Walmart Canada. The company wants to eliminate waste by 2025 and is already diverting 84 per cent of it from landfills in Canada.

"In the last two years, we've reduced food waste in our stores by 23 per cent," Tappenden said. To achieve its emissions goals, the company announced it will purchase new trucks from Tesla that run on renewable energy, so it will have an all-renewable energy fleet within 10 years. It will also build a highly efficient distribution center in Canada.

To achieve its sustainability goals by 2030, Walmart is undertaking Project Gigaton, an initiative that aims to remove one gigaton of emissions from the global supply chain. The company is teaming with nonprofit organizations to drive the effort and will work with suppliers around the world on sustainable agriculture, conservation, and other initiatives.

"The challenge is with the pace of adoption."

NFI Group, the leading manufacturer of buses in North America, is introducing a new generation of electric buses to its fleet. About 70,000 of its buses are on the road in Canada and the U.S. "Today, we only have about 500 electric buses on the road," said Paul Soubry, president and chief executive. "Our goal is to maximize our competitive position" and scale up the all-electric business.

"The technology is getting to the point where the math works," Soubry said. "The challenge is with the pace of adoption, and that requires municipalities to invest in infrastructure for charging the vehicles. It will be a slow evolution for the next several years, then the pace will accelerate."

Ikea Canada also has a plan. "Sustainability is part of our heritage," said Niclas Karlsson-Järnkrok, deputy country retail manager. "Our goal globally and here in Canada is to get more concrete about our actions, [and] make an impact with the reach we have as a company."

Ikea's biggest commitment, he said, is to produce more renewable energy than it consumes by 2020. It's on target to exceed that goal in Canada, where it owns two wind farms and has retrofitted half its stores with solar panels. "We're on pace to produce four times as much renewable energy as we consume."

BASF, a chemicals company, is focused on "driving a sense of purpose within the company, helping our employees understand and believe they really can do something about achieving a low-carbon economy," said Marcelo Lu, president of BASF Canada.

"We don't have to simply follow what global and regional colleagues are doing," he said. "We can follow the advancements here in Canada, and we've done that in industries that are especially important in Canada, like construction, mining, auto, and aerospace." For example, the company has built a facility for processing and reusing precious metals that are emitted by vehicles.

"Now, our people understand they're not just marketing a product. They're marketing the sustainability that comes with it, and we're doing it with a mindset geared to Canada."

Investing for Change

Sustainable investing is accelerating as well. "Globally, just 26 per cent of investments are now being managed to include sustainability, but investment managers increasingly are finding these strategies can improve results," said Lee Ballin, head of sustainable business programs at Bloomberg L.P.

Although such corporate policy must be driven from within, companies around the world are facing external pressure to focus on sustainability, as well as social and ecological issues. Investors, consumers, and even credit rating agencies are increasingly seeking data beyond a yearly sustainability report to understand a corporation's efforts and plans.

Bloomberg data indicates that North America is catching up to Europe in ESG and social responsibility assets. Europe accounts for 26 per cent of ESG assets globally, with North America at 17 per cent. But from 2013 to 2016, assets in North America increased by 42 per cent, while assets in Europe grew by just 2 per cent.[3]

In 2017, Canada's second-largest pension fund, CDPQ, pledged a 50 per cent increase in low-carbon investments by 2020 and a 25 per cent decrease in GHG emissions per dollar invested by 2025.

"Companies around the world are facing external pressure to focus on sustainability."

BlackRock, an investment management company that manages $6 trillion in assets, including $200 billion in Canada, is a leader in sustainable investing. In 2012, the company established a $1 billion renewable power equity fund that today has $5 billion under management. "We expect the fund to double or triple in size in the next five to 10 years," said Marcia Moffat, managing director and head of Canada for BlackRock.

"This isn't a fleeting trend," she said. "This is important to institutional investors."

BlackRock is part of the Canadian Coalition for Good Governance, representing about 50 institutional investors that collectively manage $4 trillion in assets. BlackRock published a guidebook in 2018 for directors on how to think about environmental and social risks and their oversight.

"The reason you're seeing a lot of institutional investors leaning into the disclosure of climate-related investing is because it does impact their long-term value and therefore their long-term financial performance," Moffat said. "Companies, especially in natural resources, need to recognize there is a macro trend toward a more carbon-resilient economy, and they should be investing in that future."

Advances in Financial Disclosure

Increasingly, investors are looking to improve their investment strategies and risk management processes around climate risk. In particular, they are using the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures, both to engage with corporations and for their own disclosure purposes.

The TCFD has developed a voluntary framework to assist companies in climate-related financial risk disclosures to provide information to investors, lenders, insurers, and other stakeholders. Globally, more than 500 companies and financial institutions, regulating bodies, and government organizations have publicly confirmed support for the TCFD, and many will start to work toward implementing its recommendations. This represents companies with a combined market capitalization of $8 trillion and financial institutions responsible for assets of nearly $100 trillion.

One strength of the framework is that it helps bridge the gap between sustainability reporting and financial reporting. While most previous sustainability-oriented frameworks focused on a company's environmental impact, the TCFD asks instead how climate change (physical impacts such as extreme weather events, and transitional impacts, such as policy changes) will impact a company and whether it will be resilient in the face of those changes in the short- and long-term. This shift emphasizes material issues for companies and investors alike and will better integrate climate-related information into traditional reporting methods.

"Investors are looking to improve their strategies and processes around climate risk."

The TCFD has more than 30 Canadian supporters, including BlackRock and the Co-operators Group Limited, a multiline Canadian insurer. The latter organization was an early adopter of the TCFD standards because "we really see firsthand the impact of climate change," said Karen Higgins, executive vice president and chief financial officer.

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[3] "Asset Growth Speeds ESG Funds Shakeup," *Bloomberg Intelligence,* Oct.17, 2018

"When you see a flood event, you know what it does to the community and to our financial results. The risks and challenges of climate change are continuing to increase, so we believe that by implementing these recommendations, it's going to allow us to better manage our climate-related risks, and it speaks to our mission to protect."

The Canada Pension Plan Investment Board, a member of the FSB Task Force, uses the TCFD framework to invest on behalf of 20 million Canadian pension beneficiaries. "We believe organizations that manage ESG risks are more likely to create sustainable value over the long term," said Samantha Hill, principal, sustainable investing.

"It's one of the most significant issues facing us as a long-term investor," she said. "Given our long investment horizon, we have to actively address climate change to preserve and increase economic value."

Support for sustainability in Canada is reflected in numerous government-organized initiatives to promote the TCFD. The minister of environment and climate change and the minister of finance launched an expert panel that will provide recommendations for the federal government to build on the work of the TCFD. Additionally, a G7 investor initiative led by Caisse de Dépôt et Placement du Québec and the Ontario Teachers' Pension Plan, alongside the federal government, includes a pledge to accelerate implementation of TCFD recommendations.

"The support we have seen for the TCFD in Canada is encouraging on a few levels," said Curtis Ravenel, global head of sustainable business and finance at Bloomberg L.P. "First, there is strong support in the financial sector from leading asset owners and managers, and from all major Canadian banks."

"What's more, in recent months support from Canadian corporations has grown and includes a range of important industries such as metals, mining, and oil and gas," he said. "This balanced support can enable the economy to progress toward a low-carbon future, and the additional task force-related initiatives launched with government organizations will only strengthen the industry efforts."

Advancing the Conversation

Gordon Beal, vice president of research, guidance, and support at CPA Canada, said the shift in focus on material issues allows the 200,000-plus members of his organization to "elevate the conversation to the most senior levels of the organization."

"When you have this conversation, key questions arise," Beal said. "How are we embedding these issues into our strategy? How do we manage risk? How do we potentially reshape our business model to address these issues? If we have to disclose this information, we need to live up to it."

This elevation is a crucial point of the Task Force recommendations, which ask all reporters to disclose how climate change is governed within their organization. Disclosure of this information will help stakeholders determine which organizations are actually elevating the issue and will help encourage companies that may not have senior management involved at this point to take action.

'An Innovation Opportunity'

As Canada transitions to a low-carbon economy, stakeholders have an opportunity to frame the national discussion around innovation, economic growth, and productivity.

"Technology is central to any effort to innovate."

"We need to look at this as an innovation opportunity," said Aisha Bukhari, senior manager at the Advanced Energy Centre, a public-private partnership. "And we need to change the mindset from one of risk to one of economic opportunity.

"Renewable energy, for instance, is a $2 trillion market. The next step is for the public and private sector to come together and step up."

Technology is central to any effort to innovate. For example, a few of the financial institutions that are participating in the TCFD pilot led by the United Nations Environment Programme Finance Initiative are using big data to assess climate-related risks and opportunities. UNEP FI, together with 16 of the world's leading banks, is exploring methods for assessing and disclosing the risk of climate-related events based on the TCFD recommendations.

Two of the banks in the lending-focused pilot looked at data visualization tools to help with this. In 2018, TD Bank Group identified Bloomberg as a key partner in this and worked with them on the digital mapping tool, which Citi also found to be valuable.

TD used a map of global power plants overlaid with historical cyclone data to determine which plants are most exposed to cyclone risk. Among several benefits that the two banks found, one of the biggest impacts was that "The maps expose insights, and they're a great visual for telling your story," said Hui Wen Chan, vice president of corporate sustainability at Citi. Having something tangible to show, like a map, can help to take the impacts of climate change from abstract to reality.

Delivering Productivity

The low-carbon opportunity is also one of productivity and efficiency, said Julia Langer, chief executive of The Atmospheric Fund. "About 50 per cent of the emissions in any city comes from the buildings. The investment opportunities are huge, especially on energy efficiency retrofits."

"You don't even have to talk about climate change here," Langer said. "If you look at the opportunities collectively, they are generally about improving our productivity as a country."

Canada can drive growth through greater energy efficiency, and in this respect, we are achieving a lot." Toronto, for instance, is reducing its emissions while growing its economy.[4] "They're proving you can decouple carbon and growth," Langer said.

Government Support for Innovation

The federal government remains fully supportive of these efforts. "We're looking at a range of policies and programs that we put in place that would benefit not only the clean-tech sector but the Canadian economy more broadly," said Navdeep Bains, Canada's minister of innovation, science, and economic development.

Bains points to two key Canadian advantages. First, the clean-tech industry now represents 3 per cent of the economy, accounting for roughly 180,000 jobs. "The growth potential for exporting that expertise to the rest of the world is phenomenal," he said.

Canada's second key advantage is its well-educated workforce, Bains said. Canada has one of the world's top education systems, according to the Organization for Economic Cooperation and Development.[5]

"The challenge is delivering the right skill sets, especially in the new digital economy," Bains said. "Digital skills are often required for clean tech. That's where we're focused."

"Canada's key advantages are its clean-tech industry and educated workforce."

The government also is looking at tax policy. It has designed tax provisions[6] that are favorable to clean-tech companies and is working to stimulate investments in research and development.

"Unfortunately, in R&D investment, Canadian companies rank 22 out of 34 according to the OECD," he said. "So the question is, what kind of tax policies and program can we put forward that unlocks some of that money that de-risks R&D projects?"

'We Need Change Management'

Canada has many of the building blocks in place for successfully transitioning to a low-carbon economy, but not all elements of society are pulling in the same direction.

"About 85 per cent of Canadians already live in a place with a carbon price of one form or another, and our economies are doing rather well where we have these prices in place," said the Suzuki Foundation's Cornish. "The problem is, the education wasn't done very well, so only about 30 per cent of people even know they live in a carbon-price zone."

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4 C40 Cities, Toronto profile, https://www.c40.org/cities/toronto#city-header

5 Organisation for Economic Co-operation and Development, "Canada: Overview of the Education System 2018," http://gpseducation.oecd.org/CountryProfile?primaryCountry=CAN&treshold=10&topic=EO

6 James Munson, "New Budget Friendly to Canada's Clean Technology Companies," *Bloomberg Law,* March 1, 2018

It’s more than an education issue, however. “It’s a change-management challenge,” Bukhari said. “We need to be systems change experts.”

David Layzell, professor and director of Canada Energy Systems Analysis Research Initiative at the University of Calgary, agrees. “Our strategy needs to be broader than just climate change,” he said.

“We need to step back and reframe our climate change problem as a systems change problem, and design systems changes and solutions in ways that are going to be attractive to the average Canadian, that speak to their aspirations and goals.”

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