

A Competitiveness and Environmental Sustainability Framework

***Strengthening Canada's long-term
competitiveness, its natural environment and the
well-being of its citizens***

Purpose

- The purpose of the proposed framework is:
 - to attain the highest level of environmental quality as a means to enhance the health and well-being of Canadians, preserve our natural environment, and advance our long-term competitiveness – strengthening Canadians' quality of life
- The deck sets out evidence that:
 - environmental sustainability is emerging as a new basis for competitiveness
 - consumers, investors, markets, leading companies and key industrial and emerging economies are both driving and responding to this change
 - Canada needs transformational change to respond

The determinants of competitive advantage have changed over time ...

- Late 18th and early 19th centuries
 - driven by need to economize on labour (a scarce resource)
 - with mechanization labour productivity increased 200-fold
 - first movers (Britain) became industrial leaders for decades
- Late 19th and early 20th centuries
 - driven by need to exploit natural resources more effectively, and new technologies (e.g., electricity, internal combustion engine)
 - US became new powerhouse, Britain failed to react and fell behind
- Late 20th century
 - driven by globalization of industry and finance through information technologies
 - success based on ability to adapt quickly - with high value placed on a skilled workforce (integration of economic and social policy)
 - US remained a world leader
- Canada was a leader in the latest industrial revolution – as we transformed into a knowledge-based economy – giving us a quality of life that is among the best in the world.

and as we enter the 21st century, the model is changing again ...

- **Environmental sustainability is emerging as a key driver of our economic competitiveness.**
- The emerging model of competitiveness recognizes that:
 - sustained, long-term economic growth requires a long-term, comprehensive approach to sustainability;
 - climate change is our single greatest sustainability challenge; and
 - adopting a sustainable approach requires buy-in – from citizens, industry and governments – to be successful.

in response to significant economic and health impacts.

- It is having real economic impacts:
 - Over the last 50 years, the globe has lost:
 - 25% of its topsoil;
 - 33% of its forests; and
 - most of its large fish stocks
 - In Canada, the loss of such natural resources would be significant – as forest products contribute \$59 billion and oceans \$19 billion to our economy.
 - The cost of weather-related disasters in Canada has grown 5-fold in the 1990s
 - Environmental impacts on human health cost OECD countries 0.5% of GDP

- The environment is affecting the health of Canadians:
 - smog is linked to thousands of premature deaths, 100,000s of illnesses, and 6,000 emergency room/hospital admissions every year
 - prevalence of childhood asthma has increased 4-fold in 20 years and is now a leading cause of school absenteeism

Citizens are demanding action by corporations and governments ...

- Citizens are forcing corporations to take action:
 - Mitsubishi – after 8-year consumer boycott agreed to top-to-bottom environmental review of business activities
 - Home Depot – responded to calls to eliminate sale of wood from endangered forests
- And governments are acting to address the most immediate threats to human health (especially at a local level):
 - cities such as London, Paris and Singapore have taken proactive action to reduce urban air pollution
 - California has enacted the most stringent vehicles standards in the world

investors are demanding better management of environmental risk ...

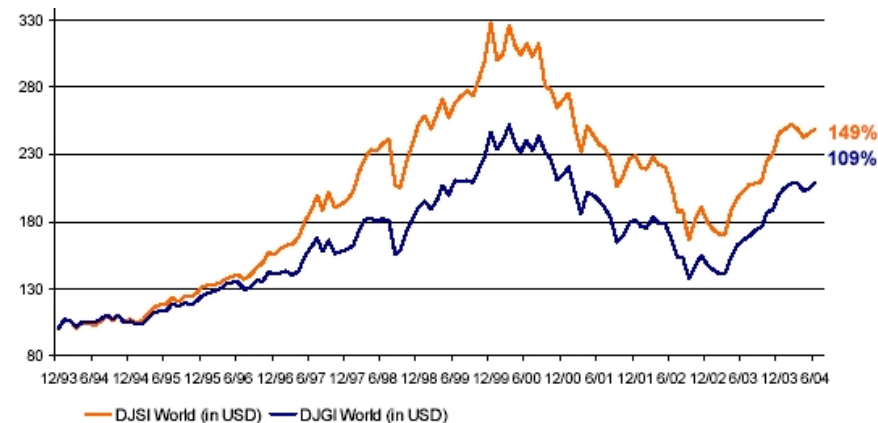
- 13 major public pensions, representing over \$800B, asking US Securities and Exchange Commission to require corporate disclosure of global warming risks
 - American Electric Power and Cinergy Corporation are now reporting on their climate change strategies
- London-based Carbon Disclosure Project, representing 95 global institutional investors and \$10 trillion, demanding disclosure of financial risk of carbon emissions
 - participating investment firms have doubled in last 2 years
 - From Canada, includes Ontario Teachers Pension Plan Board, Acuity Investment Management Inc. and CI Mutual Funds
 - Company response rates have increased from 44% to 59%
 - Royal Bank and Suncor among top 50 companies in reporting
- 34 of Canada's 100 largest companies produce sustainability reports

leading companies are responding and reaping benefits ...

- **Industry leaders are beginning to act – and are reporting multiple benefits:**
 - Increased efficiency and reduced operating costs (eco-efficiency);
 - Reduced liability and risk;
 - Enhanced corporate and brand image;
 - Improved employee morale, recruitment and retention; and
 - Opportunities for greater access to new and existing products and markets:
 - e.g., Canadian power utilities exporting to 14 States may need to invest to meet renewable energy portfolio standards
 - e.g., Canadian pulp and paper practices have changed as a result of regulations on recycled content in newsprint
 - e.g., North American exporters are required to meet Japanese recycling requirements on product content, packaging etc.

- **These actions are having an impact on their bottom line:**

- Over the last 10 years, the companies in the Dow Jones Sustainability Index World (DJSI World) outperformed the Dow Jones Global Index World (DJGI World).



Key industrialized countries are providing strategic direction and are bringing their sustainability visions to the G-8.

- **Japan: *Recycling-Based Society***
 - framework laws covering all aspects of production, distribution, consumption, and waste disposal
 - ultimate goal – “closed loop” economy – waste becomes new products
 - positioning companies as leaders in recyclable product design
 - Influenced 2004 G-8 with 3Rs (reduce, reuse, recycle) and is planning 2005 Ministerial meeting and hosting 2008 G-8

- **UK: *Framework for Sustainable Consumption and Production***
 - goal to reduce GHGs by 60% by 2050
 - implemented by Ministerial Committee on the Environment
 - chaired by Deputy Prime Minister
 - considers environmental impact of all government policies
 - supported by 20 Green Ministers who assess operational impacts
 - hosting 2005 G-8 and has set climate change as overarching theme

- **Germany**
 - world leader in renewable energy use – especially wind power
 - Schroeder opened Ministerial meeting on renewables in 2004
 - could place focus on renewable energy when hosting 2007 G-8

The US is positioning itself for a post-carbon economy ...

- Leading technology-driven, multilateral collaboration launched at G-8:
 - *Carbon Sequestration Leadership Forum* (16 countries) – capture and storage of carbon and clean coal technologies (over \$100M in past 2 years)
 - *FutureGen* – build zero-emission electricity/hydrogen production plant (\$1B over 10 years)
 - *Generation IV* (10 countries) – research on advanced nuclear energy systems
 - the *Earth Observation System* – “essential to the information infrastructure necessary for sustainable development”
- Supported by key domestic initiatives:
 - *Hydrogen Fuel Initiative* – fuel production and refueling infrastructure (\$1.2B over 10 years)
 - *Freedom Car* – production of practical, affordable hydrogen car (\$500M over 10 years)
 - *Million Solar Roofs Initiative* – reach goal by 2010

and China is building a new economic model for emerging economies.

- Health impacts of poor air and water quality are costing Asian economies 3.5% of GDP
 - these problems will only get worse as their economies grow
- China's current 5-year economic plan recognizes that traditional economic growth model is not viable
 - investing 1.3% of GDP in environmental technologies
 - set target to cut pollution by 10% per year
- Brazil, India and Russia will need to copy this approach
 - by 2050, China, Brazil, Russia and India will be among top 6 world economies – combined they will equal size of G-7
 - US will drop from 25% to 10% of world GDP
- Successful exporters into these markets will need to more radically integrate environmental health into their business practices

As the world moves towards sustainability, it must address climate change.

- **There is no greater environmental sustainability challenge than climate change**
 - Addressing climate change is critical to our long term competitiveness as well as to the health, safety and security of Canadians
- **The Kyoto Protocol brought the world together to fight climate change**
 - Canada and most other industrialized countries are striving to achieve ambitious near term emission reduction targets and have much to do
- **But the climate change challenge is much bigger than Kyoto**
 - Targets need to be deeper and longer term
 - Even countries like the US, who have not ratified Kyoto, are taking first steps towards major transformational change
 - There will be a new international agreement and Canada must help shape it

Canada must develop a strategic approach to climate change.

- **The challenge for Canada is to take aggressive action to achieve our near-term Kyoto targets within a context of long term sustainability**
 - This means choosing our actions so as to achieve long term benefits as well as near term results
- **Will require much more focused and concerted action than we have taken to date**
 - Focused on cities, industry, Canadians
 - National rather than federal approach
 - Using full range of tools (legislation, regulations, programs, incentives)
- **This strong domestic approach would be a model for new global efforts – when the world meets in 2005 to set the course for the next 50 years**

In summary ...

- Citizens want their health and environment protected
 - current model of production is affecting their health and degrading their environment
 - They're demanding action to protect their health and conserve the natural environment, but they don't want to compromise their economic well-being
- Leading companies are responding and benefiting
 - taking a long-term focus
 - acting to minimize risks and maximize opportunities
 - ensuring increased transparency
 - Seeking government support to “mainstream” actions by industry leaders
- Key countries (governments) are responding
 - putting in place strategic frameworks to drive transformation (UK, Japan)
 - making strategic investments to become world leaders (US)
 - recreating their economies (China)

What does this mean for Canada?

Canada has some recent progress to build upon ...

- Canada has addressed some key environmental issues:
 - *Acid Rain...* Canada, working with the U.S., reduced its SO₂ emissions by just over 50% since 1980
 - *Ozone depletion...* Canada led an international effort that has reduced global consumption of CFC's by 85% since 1987
 - *Water treatment...* Since 1983, the percentage of urban Canadians with wastewater treatment has increased from 72% to 97%.
- And has established a potentially strong legislative base for action:
 - *Fisheries Act, CEPA, SARA, CEAA*

but we are still behind our competitors in terms of performance ...

- **The OECD reports that our environmental performance lags behind G-7 and OECD countries**
 - Emissions of CO₂ and key air pollutants on per unit GDP and per capita basis are among highest in any OECD countries
 - Pollution abatement and control expenditures as share of GDP on lower end of G-7
 - Share of national area protected is lower than our own target and the OECD average

and in terms of our approach.

- We hear that Canada's approach:
 - Is fragmented between and within jurisdictions, regions, and sectors and is characterized by antagonistic relationships;
 - Often results in a focus on the "lowest common denominator";
 - Often sets environmental policy in isolation from basic economic and business principles;
 - Takes a short-term, issue-by-issue approach and fails to focus on long-term outcomes;
 - Does not make sufficient use of the full range of policy tools – especially market-based instruments;
 - Burdens industry with inconsistent, complex, and sometimes conflicting compliance and enforcement regimes;
 - Reduces both transparency and the ability to drive and measure progress because of incomplete information and reporting; and
 - Fails to recognize the limits to what leaders in sustainability can do without a supportive policy frame.

That is why Canada needs a framework ...

- A national framework would be developed in collaboration with provinces and territories, industry, NGOs, Aboriginal groups, and other key stakeholders, with shared goals achieved through:
 - A long-term focus based on business realities
 - Rewarding results
 - Decisions informed by science
 - Predictability and transparency
 - A smart regulation, “single window” approach
- Supported by five pillars:
 - Decision-making – inclusive and flexible decision-making based on shared responsibility for national outcomes, with policy alignment across jurisdictions, results-focused collaboration between stakeholders, and performance assessment and clear accountability
 - Information – enabling sound decision-making, prediction, assurance and reporting
 - Science and technology – taking a coherent approach focused on priority challenges
 - Performance promotion and enforcement – using incentives to encourage compliance through sustainable practices and setting up a fair, consistent and predictable enforcement regime, focused on outcomes
 - Education and engagement – empowering citizens and decision-makers to make informed choices

that is comprehensive ...

- The framework needs to take an integrated approach to the full range of sustainability challenges:
 - Climate change
 - Clean air
 - Clean water
 - Land use
 - Biodiversity
- To yield significant results, we should apply the framework to three key areas:
 - Industrial base
 - Cities
 - Citizens

with F/P/T governments forging a national partnership ...

- Federal departments work together for an integrated and cohesive view
- Federal, provincial and territorial governments build a new **national partnership**
 - develop **clear expectations for long-term ambitious health and environmental goals**, informed by science

working with industry on real, long-term outcomes ...

- **Collaborative mechanism required with industry** to deliver on national environmental goals – brought forward by governments
- Need to bring right people (F/P/T governments, industry, NGOs, Aboriginal groups, and other key stakeholders) around **ongoing value-chain sector sustainability tables**
- Tables identify **how** to achieve goals through **sector-specific agreements**, on the basis of best information
 - approach tailored to **reflect business realities** (e.g., capital stock replacement and investment cycles) and **place-based considerations** (e.g. regional and local differences in environmental pressures and business realities) – while working to achieve same long-term targets
 - incentives to reward leaders and drive compliance
 - long-term timelines, with interim targets
 - backstopped by regulations, with fair and predictable penalties for those who fail to act

and a path to concrete results for cities, communities and citizens.

- Ensuring that the “New Deal for Cities and Communities” reflects this framework would yield environmental sustainability and competitiveness improvements:
 - Addressing key urban issues (e.g., sprawl, smog, water, waste)
 - Leveraging federal investments through conditions worked out with the provinces (e.g. infrastructure)
- Empowering Canadians to make sustainable choices as citizens and as consumers (e.g., on housing, automobiles, appliances, packaging):
 - Tax incentives
 - Product regulations, standards, and labelling
 - Education and engagement

Work has begun ...

- F/P/T ministers have agreed “to work towards an environmental sustainability framework for Canada” (Nov. 2 CCME Communiqué)
 - Objective to develop draft framework for Ministerial consideration by March 2005
 - Refine framework for Ministerial approval by June 2005
- The concept of a framework has also resonated with industry and NGOs (e.g., Petroleum Producers, Suzuki Foundation) – and they want to work with us further to develop it.

to make environmental sustainability a key part of our competitiveness.

- The framework would enable Canada to:
 - take broad-based action by industry and consumers to “*brand Canada*” as an international model of environmental performance – creating a Canadian competitive advantage and increasing market access through the removal of non-tariff trade barriers;
 - *level the playing field* – to ensure outcome-based standards are met across industry;
 - *set a long-term approach* to achieving outcomes, reflecting business realities;
 - provide *predictability* on priorities and outcomes;
 - focus *incentives* to drive and reward corporate leadership; and
 - apply strong domestic approaches to our international commitments – *creating models for the world* and shaping global efforts ...
- ... through a national F/P/T partnership underpinning a collaborative, outcome-focused relationship with industry and driving results for cities and communities and citizens ...
- ... attaining the highest level of environmental quality and improving the quality of life for all Canadians by strengthening the health and well-being of Canadians, our natural environment, and Canada’s long-term competitiveness.