



# Canada's Carbon Advantage

**Speaking Notes for Perrin Beatty**

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**Please Check Against Delivery**

It's a real pleasure to have been invited for a third time to address this Forum. Canada's burgeoning LNG industry has great strategic importance for the economy, and this event really has the pulse of the sector.

The Canadian Chamber of Commerce has many files but only one real mission: the competitiveness of the Canadian economy. Everything we do ties back to how we can build on Canada's advantages and compensate for our weaknesses.

The trouble is that it isn't always clear what is strength, and what is weakness.

Malcolm Gladwell's latest book focuses on this challenge. It opens with the argument that for thousands of years we've been misunderstanding the story of David and Goliath.

We tend to think of David as being at an incredible disadvantage. Small and armed with only a rock and a sling, he was up against a heavily armored giant that struck fear in everyone around him.

But the shepherd boy had been honing his skills with a sling against wolves and other predators for years. He was used to taking on opponents much more ferocious than himself. He could accurately launch a stone with enough force to kill.

David was a fast, agile and experienced fighter. He was armed with long-range weapon with that had "stopping power" equivalent to a .45 caliber gun. He was taking on a large, slow-moving target with a short-range spear.

Gladwell's point is that the story of David and Goliath isn't about an underdog triumphing against the odds. It's the story of assuming certain characteristics are weaknesses, when in actual fact they are strengths.

One of the issues we've been working on a lot at the Chamber is community acceptance of natural resource projects, often called the social license to operate.

I don't need to tell this group that community acceptance has become a key factor in the competitiveness of Canada's resource industry. You live it every day. Both at home and abroad, a lack of social license is restricting access to markets and to resources for Canadian companies.

I also don't need to tell you that perceptions about the environmental impacts of these industries are a crucial part of this discussion.

The question I want to ask today is whether industry is taking the right approach to addressing the environmental part of social license.

Like Goliath, are we assuming that the industry's strength equals effectiveness in this fight?

Or do we need a new approach?

It's time we made an asset of our environmental performance, instead of accepting a rising perception that Canada has not performed well.

At the Canadian Chamber of Commerce we think it's time to respond.

In December 2014 we released a report called *The Measures that Matter*. It a work that I'm quite proud of, which asked three simple questions:

First, what are the natural resource sector's main impacts on land, water, and greenhouse gas emissions?

Second, how is industry doing in mitigating these impacts, including the development of new technology?

Last, what role is government playing through policy and regulations?

This wasn't the type of advocacy piece we normally do at the Chamber. Its purpose wasn't to ask government to change this or that rule.

Instead it was a simple catalogue of the environmental impacts of three of Canada's most important sectors and the measures industry is taking to address them.

I particularly liked the examples of cutting-edge environmental technologies listed in the report. To me they really underscored the degree to which resource industries are Canada's high tech sector.

Our target audience was the network of 450 local Chambers of Commerce across the country. In particular, we were focusing on a subset of Chambers that we've been calling the Resource Champions network.

Over the past year we've had 121 chambers sign up to a special program to take the message about the importance of natural resource trade to their communities.

Our first campaign, which ran in March and April, engaged more than 1,000 local business and government leaders in direct, face-to-face discussion about the needs of the resource sector and the importance of resource trade. Thousands more heard our message through the media generated by these grassroots activities.

Chamber staff and members are business-minded folks who aren't generally specialists on the environment, but they are often asked to comment on developments near their communities. We wanted to provide them with the facts.

As we worked on *The Measures that Matter*, it struck me that it was both a good news and a bad news story.

The good news was that, quietly and without much public recognition, Canada is building world-leading expertise in producing natural resources sustainably.

The bad news is that even best-in-the-world performance on mitigating environmental impacts is not building the trust that could be a real advantage to the Canadian resource sector.

Forgive me from straying from LNG, but one of the clearest examples of this challenge is BC's forest product sector.

The forestry industry was a canary in the coal mine. The 1990s was marked by the “war in the woods,” as protestors clashed with logging companies over the harvesting of old-growth forest.

Canadian forestry industry responded and evolved, and is now indisputably a leader in sustainable forest practices.

Canada has four times as many forests that are independently certified as managed sustainably than anywhere else in the world.

Paper and wood mills have reduced their GHG emissions by 70% since 1990.

A Yale university study has assessed Canada’s forestry regulations and laws as being among the most stringent in the world.

This is a remarkable story. Every Canadian cares about sustaining our unique forests ecosystems.

Yet I’m not sure that all of this progress on environmental protection has translated into public trust for BC’s forest sector.

The other day I heard a scary fact from Interfor, one of the largest lumber producers in the world.

Over the past ten years the three largest lumber companies – Interfor, CanWest and West Fraser – have opened 37 mills in the United States, while closing 14 in British Columbia. It wasn’t because of the impacts of the mountain pine beetle – they don’t operate in affected areas – or because of higher taxes, since some places they moved to had higher taxes.

A big reason for closing the mills and moving southward was the challenge of getting access to resources. Over the last 30 years the complexity of gaining access to public lands reduced the number trees available until the total timber harvest had fallen by a third.

So perhaps forest products are once again acting like the resource sector’s canary in the coal mine. A best-in-the-world protection regime is not enough to transform environmental performance into a competitive advantage for natural resource industries.

There are many voices characterizing resource industries as a Goliath, ready to fall when they are attacked on their environmental record.

Discussions with my membership and our research in *The Measures that Matter* have convinced me we don’t have to be slow and heavy.

The foundations for a Canadian competitive advantage based on our environmental record exist.

Canada has a robust network of scientific and research organizations that are continually looking at how to reduce the environmental impacts of resource extraction, processing and transport. Examples include organizations like Sustainable Development Technology Canada or the Canadian Oil Sands Innovation Alliance.

Canada has strong regulatory systems in place to protect the environment. Every tree harvested in Canada must be re-grown. Any fish habitat that is destroyed must be replaced.

People who don't trust the government can be assured that Canada has a very active civil society that watches industry and government carefully.

The missing component needed to transform our environmental record into a competitive advantage is a clear, confident and informed voice.

Canadians and our trading partners need to see what we've accomplished as well as where we are going.

In creating this environmental competitive advantage, it's essential to focus on areas where our economic interests and environmental protection align.

This is not a case of choosing the economy over the environment, but of figuring out what will strengthen our competitiveness while preventing damage to the natural world.

I've called this speech Canada's Carbon Advantage. Climate change is a high profile issue in an election year and leading up to the UN climate negotiations in Paris this December.

But of course, beyond carbon are other impacts on water, land and air that are equally crucial for Canadians. We need to include those in our thinking about a competitive advantage based on environmental performance.

Drawing ideas from our network of local chambers and boards of trade across the country as well as from our business members, I see four areas that could form part of a vision to create Canada's carbon advantage:

- Leveraging our clean electricity system;
- Using existing resource developments to create the green industries of the future;
- Establishing leadership in energy productivity; and
- Putting a smart carbon policy into place that emphasizes innovation.

First, leveraging our clean electricity system means supporting increased electricity trade to the US and attracting more power-hungry businesses to Canada. 80% of Canada's power generation comes from clean sources, mostly hydro, and we're adding even more clean generation capacity. Last year, we were 6<sup>th</sup> in the world for growth in wind energy.

By building more low-emission electricity and increasing trade to the United States, Canada can help the United States reach its own climate goals while supporting the competitiveness of our own electricity system.

If ten states were to import 2,500MW of new hydro power, the United State's emissions would fall by an amount equivalent to taking 2.3 million cars off the road.

Getting power-intensive industries to locate in Canada is another way to reduce emissions while strengthening the Canadian economy. The BC government has already moved to make the LNG industry the cleanest in the world, a goal made easier by the fact that 90% of BC's power comes from non-emitting sources.

Canada could house the world's most climate friendly server-farms, or mines or metal manufacturing.

Second, Canada's existing resource developments give us a huge advantage to create the green industries of the future.

The fact is many clean technologies benefit from traditional resource industries as a source of expertise, markets or investment.

I'm thinking about my colleagues at the Sarnia Chamber of Commerce, who are working with their partners to combine the area's homegrown expertise in petrochemical manufacturing with the region's abundant supply of agriculture products and waste.

The result is a growing bio-hybrid cluster that will allow Ontario to benefit both from the current need for petroleum-based chemicals and from the movement to replace them with products derived from renewable sources. Their strength in the first is allowing them to excel in the second.

Of course, natural gas's potential as a transitional fuel is widely known. Exported abroad, two trillion cubic feet of B.C.'s natural gas could replace approximately 100 coal plants.

We can't just focus on the energy production side. So, my third opportunity is Canada's energy consumption.

In Canada, much ink has been spilt over labour or multifactor productivity growth rates.

Yet another productivity statistic deserves closer attention. Improving Canada's energy productivity, the amount of economic output possible at a given energy supply, can increase Canada's economic competitiveness while effectively addressing greenhouse gas emissions.

This is perhaps the most obvious place to look for win-wins for the economy and the climate.

Due to increased global demand, the market for energy efficiency goods or services is large and becoming enormous.

According to Natural Resources Canada, every \$1 million spent on energy efficiency programs within Canada generates 30-57 job years.

Reducing energy use can act like a tax cut, allowing households and businesses to spend more in other areas. Between 1990 and 2011, more than \$34 billion in energy savings was reinvested into the Canadian economy.

Of course, excess energy can be exported, creating broader economic benefits through royalties and taxes collected.

But Canada has not made continuous improvements in energy productivity an explicit part of its approach to competitiveness or climate policy.

We should.

Last, all of these strategies need to be underpinned by smart climate policy. Canada faces a conundrum when it comes to greenhouse gas emissions.

The provinces are aggressive, putting in place carbon pricing regimes in our larger provinces.

Yet Canada is simultaneously building an international reputation as a laggard on dealing with climate change. We were awarded the Lifetime Unachievement Fossil award at Warsaw climate talks by environmental NGOs.

Canada's basically getting the pain of new taxes and regulations on greenhouse gas emissions, without getting much of a reputational boost either at home or abroad.

The Canadian Chamber of Commerce has a longstanding policy supporting carbon pricing.

But we're very aware that the devil is in the details. The specifics of the policy can make all the difference in whether it enhances or undermines Canada's competitiveness, and even whether it truly reduces greenhouse gas emissions.

Lofty international pledges and symbolic targets have their place, but real progress in climate change is going to come from technological progress and innovation. In other words, it is going to come from business.

Smart carbon policy is one that has technology and innovation at its center. It is one that does not create a competitive disadvantage for businesses, but helps them to reduce waste or invest in new approaches.

To summarize:

- Leveraging our clean electricity system;
- using existing economic strengths to develop new clean industries;
- aggressively pursuing energy productivity growth,
- and a smart carbon policy

- these are strategies to turn Canada's existing strengths in environmental protection into a carbon advantage for our economy.

It's often discouraging reading the headlines and seeing so many stories that pit industry against the environment. The issues sometimes seem intractable.

But Canadians understand the crucial importance of energy and other natural resources to Canada.

They know it is possible to balance prosperity with sustainability.

A March 2015 poll by Nanos research found that eight out of ten Canadians believe that energy sector growth can occur without damaging the environment.

We can turn environmental performance into a competitive advantage for Canadians.

In a few years we'll look back and realize that it isn't the armour, or the stones with the leather strap that make the difference. It's how you use them that determines who wins.