

Climate Change Policy Update

Weaker Copenhagen Pledge means Canada's 2020 GHG Reduction Target is an *Increase* over 1990

On January 30, the Canadian government submitted its non-binding GHG reductions target to the United Nations, weakening its greenhouse gas reductions commitment and changing its baseline year. The government has committed to a 17% cut in GHGs over 2005 levels by 2020, modifying its consistent pledge of a 20% cut over 2006 levels by 2020.

In absolute terms, Canada's new pledge means the country can emit 607 Mt of greenhouse gases in 2020, rather than 577 Mt under the previous target. Canada's emissions actually fell between 2005 and 2006, and the weaker target compounded with the more permissive baseline year means that Canada's emissions will be about 5% higher in 2020 than they would have been had the original target been kept.

Most of the rest of the world uses 1990 as a reference year for reductions. Should Canada hit its target, it means that, in the intervening 30 years, the country will have actually increased overall emissions by 2.5%, from 592 Mt in 1990 to 607 Mt in 2020, rather than reduce them. Using a 1990 baseline year, US targets will show a 3.5% decrease in emissions by 2020.

Environment Minister Jim Prentice attributes the change in Canada's target and baseline year to harmonizing domestic climate policy with the US, however, going back to 1990 shows that there is a 6% gap between Canadian and US reduction commitments. This illustrates the relevance of baselines when discussing emissions reduction targets.

Europe has pledged a 20% cut over 1990 levels by 2020, with a willingness to increase this pledge to a 30% cut over 1990 levels if other industrialized countries show "comparable effort."

	1990 (Mt)	2005 (Mt)	2005 compared to 1990	Old 2020 20% target (Mt)	New 2020 17% target (Mt)	New 2020 compared to 1990	New 2020 compared to 2005
Canada	592	731	+23.5%	577	607	+2.5%	-17%
US	6,242	7,260	+16.3%	N/A	6,026	-3.5%	-17%

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US Democrats Lose Senate Majority

A crucial Senate seat traditionally held by the Democrats was lost to the Republicans in a special bi-election held in Massachusetts on January 20 to replace the late Senator Ted Kennedy. Republican Scott Brown won the seat, and pundits are suggesting that this is in large part due to his appeal to voters on issues such as the economy. Brown has pledged to oppose the Health Care bill, and while he supported reducing GHG emissions as a Massachusetts state Senator two years ago, he is recently on record questioning the [science](#) behind climate change.

Prior to the January vote, the Democrats held 60 of the Senate's 100 seats. A 60% majority is required to overcome filibusters (see article on page 3), a tactic increasingly used in the Senate to delay legislation. Strong partisanship in the Senate means that voting predominantly follows party lines, and that progress on any legislation is likely to require bipartisan support. But repercussions for climate legislation may not be so clear-cut: climate legislation has, in the past, had the support of nine current Republican senators.

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US Budget Commits Cash for Climate Change

The freshly-released [US Budget](#) illustrates the priorities of Obama's administration. It calls for a "comprehensive market-based policy that will reduce greenhouse gas emissions in the range of 17% by 2020." It also opens up loans for new nuclear facilities, and allocates money to finance energy efficiency and renewable energy projects.

The budget also described some 12 subsidies for oil, gas and coal that will be eliminated, raising \$39-billion over the next decade. This matches with the agreement reached at last year's G20, which called for the global phase-out of inefficient fossil fuels subsidies.

Climate change research and satellite climate data tracking were also given a financial boost, and the EPA was given money to implement its GHG reporting rule.

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US Securities Exchange Commission Issues New Disclosure Guidelines for Climate Risks

The US Securities Exchange Commission (SEC) released interpretive guidance on existing disclosure requirements as they relate to business or legislative events on the issue of climate change. The SEC made clear that the new guidance documents do not require companies to change their current disclosure practices in any way, but instead offered advice on how to account for emerging climate change risks, whether due to new legislation, changing probabilities of extreme weather events, or changes in the competitive landscape.

The US SEC's guidance came at the behest of investor groups like Ceres, a national network of investors, environmental groups, and other public interest groups. Ceres has also submitted requests to the Ontario Securities Commission (OSC) for similar guidance. In October, Ceres asked the OSC to work with the Canadian Securities Administrators (CSA) to improve disclosure on a national level of material climate risks and related corporate governance actions. As such, additional guidance from a Canadian perspective might be pending.

Understanding the suite of risks and opportunities related to climate change is increasingly integral to running a business that is fully compliant and prepared. Delphi offers services in GHG inventories and reporting, regulatory policy analysis, and sustainability strategy development and implementation to help its clients capitalize on the opportunities and avoid the risks related to climate change. With movement from the US SEC and signs that the OSC and CSA are looking at better defining climate risks and disclosure in Canada, getting an understanding your businesses emissions and exposure could help you prepare for intelligently managing this issue.

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Quebec Enacts Controversial Vehicle Emissions Standard

Sweeping new rules governing vehicle emissions took effect January 14 in Quebec. Auto industry representatives are furious, but consumer advocates and environmental groups are loudly applauding the move.

The new regulation aims to limit GHG emissions from new vehicles, effectively reducing Quebec's personal vehicle fleet emissions by about 35% between 2010 and 2016. Transportation comprises about 40% of the province's total emissions portfolio, and represents a significant reductions opportunity for a jurisdiction that is already among the continent's greenest.

Quebec will impose a \$5,000 penalty on each vehicle sold that exceeds the standard if the fleet of vehicles sold by the company in a year fails to meet the average emissions standard. Critics point out that this cost will simply be passed on to consumers, who will either cross-border shop for dirtier vehicles, or who will hold on to older and more environmentally damaging vehicles for longer. Proponents assert that the added cost for dirty cars will encourage people to buy cleaner models, bolster industrial innovation, and will shape the sales strategy of dealers to promote low-GHG vehicles. Also, should cross-border shopping occur, it will be a short-lived phenomenon since similar national Canadian standards will come into force with the 2011 model year.

Renée Cardinal, a spokeswoman for the Montreal auto dealers' association, sees Quebec "heading out on its own" rather than following the rest of North America in setting standards. But the standard meshes with California's proposed standard, which is shaping the US federal government's standard as well as Canada's upcoming national standard.

While the rules will make vehicles more expensive – estimated at about \$1,300 per vehicle – fuel savings are expected to offset that cost in about three years.

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It's all about the Filibuster

Climate legislation has had a tough time passing through the US Senate, and the filibuster has been a big barrier for legislators.

A filibuster is a tactic that can be used in the US Senate to delay a vote on legislation. Historically, a filibustering group would need to continuously speak until the time allocated to debate was exhausted, thereby nullifying the possibility of a vote. Today, the minority leader simply advises the majority leader that a filibuster is on, and to move legislation forward, "cloture" must be reached.

Cloture represents a three-fifths majority in the senate, or agreement by 60 of the 100 senators. A successful cloture vote ends a filibuster, and allows for the bill or motion to be voted on.

From August 2009 until January 2010, the Democratic Party held a filibuster-proof supermajority of 60 senate seats. If all democrats voted together, they could achieve cloture and defeat any filibuster. But they didn't agree on climate legislation in time and lost their supermajority on January 20 with the election of Senator Scott Brown, a Republican.

Climate legislation will now need bipartisan support to overcome a filibuster. Given the filibuster's increased use, it is likely that passing future climate legislation will require 60 senate votes.

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Meaningful Sustainability Indicators

Developing meaningful and constructive sustainability indicators is a challenge for even the most progressive organizations. One major challenge our clients continually face is how does one step back and examine the business processes used to drive and support performance targets into an organization to measure progress while also demystifying the process to staff. Delphi will take the conversation to the next level by further exploring the challenges, best practices and sustainability program elements that can promote indicator integration.

Balancing and Choosing the Right Indicators:

If indicators are not chosen carefully and as systematically as possible, they will be ineffective and potentially result in misleading conclusions and actions. Measuring too many things together, or over aggregation could result in an unclear indicator and therefore improper analysis. Alternatively, too many indicators can lead to data management issues and the unnecessary use of resources to manage the indicator. Finding the right mix can be timely and costly but is crucial to the success of any progressive sustainability program.

Here is some guidance on the key 'ingredients' for successful indicators and what they should represent internally in order to move measurement to action.

INFORMATIVE AND ENGAGING OF EMPLOYEES, CUSTOMERS, AND STAKEHOLDERS	INTEGRATIVE WITH BUSINESS OBJECTIVES AND PARAMETERS AND ENGAGING OF EMPLOYEES, CUSTOMERS, AND STAKEHOLDERS	IMPLEMENTABLE ON CERTAIN MEASURES, WITHIN A CERTAIN TIMELINE
<ul style="list-style-type: none"> • Need for specificity, avoid the general • Clarity of meaning • Empowering and engaging in motivating initiative and action 	<ul style="list-style-type: none"> • Material or meaningful to business performance • Pushes sustainability performance • Find the 'sweet spot' for overall corporate performance 	<ul style="list-style-type: none"> • Material or meaningful to business performance • Pushes sustainability performance • Find the 'sweet spot' for overall corporate performance

Challenges in Indicator Integration:

Once an organization has developed relevant indicators, the challenge then becomes integrating them into already existing business processes in order to ensure that planning and decision making reflects and promotes the sustainability program. Unfortunately, when SD programs are developed to promote the competitive advantage of the entire organization, conflicts occur with long standing business processes that are not equipped to reflect the complexities of sustainability initiatives; for example, many companies deal with capital allocation issues when requesting funds for sustainability projects that do not fit into the traditional timeline for other capital projects—even if they have a performance indicator related to that item. In this case companies need to change the parameters for capital expenditures in order to fit within a sustainability timeline. In another example, energy efficiency projects for some businesses do not always meet hurdle rates in ROI models and therefore do not attain approval. In this case, unique indicators measuring the success of these projects should be created and the appropriate ROI tolerances set. Finally, integrating financial targets with sustainability objectives continue to cause stresses for many companies. This is where cross-functional teams within the organization should be developed in order to help with this integration.

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