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Climate Leadership Discussion Paper
Ministry of Environment
Climate Action Secretariat
P.O. Box 9486, Stn Prov Govt
Victoria, BC
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Sent by email to: climateleadershipplan@gov.bc.ca

Re: Comments on the Climate Leadership Discussion Paper

We are writing to offer our investor perspective on British Columbia's Climate Change Discussion Paper.[1] We appreciate the opportunity to provide input and commend the Government of British Columbia (BC) for soliciting public input on this issue and for the leadership it is showing in regard to its efforts to develop an effective climate change strategy. We strongly support decisive government action on climate change.

With approximately C$6.3 billion in assets under management (AUM), NEI Investments' approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will build long-term sustainable value for all stakeholders, and provide higher risk-adjusted returns to shareholders.

We believe that mitigating the risks of climate change should be an imperative for all Canadian investors regardless of what part of the economy they are invested in. Climate change is one of the greatest threats facing the planet and consequently the global economy. Investors who are concerned about long-term financial returns face significant risks from climate-related impacts. Investors also bear a responsibility for actively addressing climate change through their investment decision-making and through engaging with the companies in their portfolio. However, current policies and regulations in Canada (and BC) need to improve to spur the energy transition and hasten the shift to investment in low-carbon activities.

Key Principles

We support the principles outlined on page 11 of the paper and believe they act as an appropriate guidance for the development of an effective climate change strategy. Similarly, the four general goals outlined in the paper on page 13

[1] https://engage.gov.bc.ca/climateleadership/files/2015/07/ClimateLeadershipPlanDiscussionPaper.pdf

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reflect the key areas of concern for BC and contain appropriate objectives. However we would note that individual policy actions can meet multiple objectives across several goals and where possible, BC should be focused on constructing policies that will have the greatest impact across all four areas. We have focused our comments on the key issues that we believe are material for investors.

A Price on Carbon is Mandatory

We strongly support a price on carbon as the centrepiece of any climate strategy. BC has been justifiably lauded for its implementation of a revenue-neutral carbon tax and any future strategy should be built upon the backbone of carbon pricing. We do believe that in order to continue to be effective, BC's carbon tax will have to incorporate future increases in stringency in order to send appropriate signals to the market. Absent an increase in stringency, the price on carbon will not reflect the actual costs of carbon emissions to BC's economy nor will it lead to desired outcomes in emissions reduction. In response to the question posed on page 13 of the discussion paper, "… which of the four goals needs the most immediate attention in order for BC to achieve its 2020 targets," we believe that the highest near-term priority must be maintaining an effective price on carbon. An effective price on carbon will stimulate action across all of the other three goals and will influence the scope and scale of several, more targeted, policy decisions.

Further, BC should continue to work to ensure that at the individual level, carbon-pricing policies are equitable and minimize adverse impacts on vulnerable populations. We would note the work of the Eco-Fiscal Commission and its focus on policies that increase the cost of negative externalities (such as carbon emissions) while reducing the overall regulatory and tax burden, with particular attention paid to ensuring low-income individuals and families are not unduly impacted.[2] We believe the work of the Commission validates BC's approach in this regard and thus future increases in carbon pricing should be accompanied by measures to alleviate the impact on the most vulnerable.

The Strategy Should Drive Innovation

The case for increased innovation is compelling. There is little disagreement that a greatly increased focus on innovation is required if we are to achieve the step-change improvements we need to see in emissions reductions. This will demand greatly increased research and development spending and more effective commercialization of existing technologies. The pace and scale of innovation needs to increase significantly.

A substantive price on carbon will itself act as an incentive for companies to increase efficiency and find innovative ways to reduce emissions. However, a price on carbon alone will not be enough. While we support the current approach of tax-shifting (increasing the tax on carbon emissions while reducing other taxes) we believe that some of the revenues from the carbon pricing scheme should be used to directly incentivize climate solutions research and development. From an inter-generational equity perspective, it seems clear that some of the profits generated from today's carbon-intensive economy should be put towards ensuring future generations have access to a sustainable low-carbon energy system.

Regardless of the mechanism chosen to incentivize innovation, from tax cuts and subsidies to direct research funding, innovation must be central to the government strategy. Canadian companies have traditionally not performed well in regard to innovation, but it seems clear to us that future prosperity will be materially dependent on how well we stimulate innovation-based cultures.[3] Particular attention should be paid to creative solutions for driving diversification within

[2] http://ecofiscal.ca/
[3] http://www.conferenceboard.ca/hcp/details/innovation.aspx

sectors that have traditionally been tied to emission-intensive industries. We believe BC should consider how its new framework could actively encourage this type of diversification. For example, given a choice between paying into a compliance fund and providing direct investment capital to a potentially lucrative opportunity (i.e. low carbon solutions), we feel that many companies might choose the latter.

We note that investors are showing increasing interest in low-carbon investment opportunities globally. 347 investors representing over CAN $31 trillion in assets under management are signatory to the 2014 Global Investor Statement on Climate Change, which among other things commits investors to "identify and evaluate low carbon investment opportunities."[4] The International Energy Agency estimates that in order to meet our global goal of limiting climate change to two degrees celsius we will need to invest US $28.5 trillion in low-carbon technologies and energy efficiency over the next 20 years.[5] It is clear that a significant investment opportunity is on the horizon and BC should consider how it can craft policies that optimize the ability of BC-based companies to meet this opportunity. Successful models already exist in Canada, and thought should be given to how BC can replicate or coordinate with these programs.[6]

Optimizing the Role of BC's Forests as a Carbon Sink

BC has made significant commitments to the preservation of its forests and we strongly support the ongoing commitment to this effort. We would highlight the unique and ground-breaking agreement being brokered in the Great Bear Rainforest as an example of a thoughtful approach to forest management worth emulating elsewhere. While this agreement was not focused on carbon sequestration, it will in fact have a net positive impact on BC's GHG profile regardless. On a national level, the Canadian Boreal forest stores an estimated 208 billion tonnes of carbon – almost 300 times Canada's 2012 GHG emissions.[7] We believe any credible climate policy in Canada must include a tangible commitment to preserve this key carbon sink.

NEI is a member of the Boreal Leadership Council (BLC), a multi-stakeholder collaboration of conservation groups, First Nations, resource companies and financial institutions.[8] Members of the BLC are committed to a vision that calls for the establishment of a network of large interconnected conservation areas covering about half of the country's Boreal forest and the use of leading sustainable development practices in the remaining areas. We encourage BC to engage with organizations such as the BLC to build momentum towards a national Boreal strategy in line with the BLC's Boreal Forest Conservation Framework.[9] Critical to the success of any Boreal conservation strategy will be the meaningful consultation and participation of local First Nations and Métis communities.

We believe that First Nations and Métis communities need to be partners in ensuring that BC's forests (including Boreal and rainforest areas) remain a vital carbon sink. This means maintaining the right and ability of First Nations and Métis communities to continue with traditional livelihoods, while also ensuring opportunities for the their participation in the sustainable economic development of these forests. Specifically, traditional ecological knowledge should be incorporated into robust and effective land use planning processes. We would suggest that the immediate opportunity to do this would

[4] http://www.iigcc.org/files/publication-files/2014_GLOBAL_INVESTOR_STATEMENT_ON_CLIMATE_CHANGE.pdf
[5] https://www.iea.org/publications/freepublications/publication/WEIO2014.pdf
[6] For example, Sustainable Development Technology Canada (SDTC) is a well-established program (https://www.sdtc.ca/en), while Alberta's Climate Change and Emissions Management Corporation (CCEMC) is a good example of how funds from a carbon-pricing system can be used to directly stimulate new technologies (http://ccemc.ca/)
[7] http://www.borealbirds.org/sites/default/files/pubs/report-full.pdf
[8] http://borealcouncil.ca/
[9] http://borealcouncil.ca/wp-content/uploads/2015/03/Framework-2015ENG.pdf

be to embrace the concept of regional strategic environmental assessment (RSEA) as a land use planning tool, as recommended by the Canadian Council of Ministers of the Environment.[10] An RSEA process that is designed with First Nations and Métis input as a central tenet of operation would enable the province to best incorporate traditional knowledge into future development plans.

Using the Financial Sector to Support Climate Goals

We believe one of the key sectors that BC can influence, and that can contribute materially to achieving both BC and Canada's climate targets, is the financial sector – specifically investment institutions. Investors have the ability to drive market shifts through their allocation of capital, but they also represent a largely untapped resource to effect change through their status as key corporate stakeholders. We believe there are several opportunities to enhance the role of investors in driving the transition to a low-carbon economy. Note that the most significant action the province can take to enable this role is to remove the current uncertainty around climate policy. This includes working effectively with the other provinces, territories and the federal government to ensure that companies face a consistent policy environment across the country. Having a robust framework with clearly articulated targets and enforcement will enable investors to take a proactive and measured approach in addressing the resultant carbon risks in their portfolios. The current uncertainty in regard to climate policy partly explains the reluctance of investors to begin reallocating capital.

However, investors are already consciously allocating capital towards investments that actively support climate related goals. We note the growing market (and support) for green bonds and climate bonds, both within Canada and globally.[11] We believe there will be a growing role for green bonds in stimulating the energy transition and recommend the government of BC look to the experience of Ontario for guidance in this regard.[12] In 2014 Ontario showed leadership in issuing the first provincial green bond. This bond was strongly embraced by investors, with the issuance being more than four times oversubscribed. However, access to this offering was extremely limited for the retail investor, which is consistent with the global trend for green and climate bonds. The secondary market for green bonds is decidedly shallow. Despite the rapid growth of the green and climate bond market, it is still relatively difficult for investors to get exposure to this asset class.

The BC government has a role to play in both increasing the access to high quality green bonds and in ensuring that standards around green bond issuance are credible, robust and transparent. We encourage BC to work closely with international efforts to create a robust, global standard for green bonds and climate bonds. We would point to the International Capital Market Association's *Green Bond Principles* and the Climate Bonds Initiative's *Climate Bond Standard* as two efforts BC should be engaging with.[13]

Support Climate Change Research

We note that while the scientific evidence of anthropomorphic climate change is overwhelming and to a large degree publicly available, there is less research available on the risks to corporations (and their investors) in regard to the expected outcomes of climate change and climate policy. We believe that companies and investors do not have an adequate amount of peer-reviewed research on this topic. As an economy that is heavily reliant on fossil fuels, there are clearly some unique

[10] http://www.ccme.ca/files/Resources/enviro_assessment/rsea_principles_guidance_e.pdf
[11] http://www.neiinvestments.com/documents/PublicPolicyAndStandards/2014/Investor%20Statement%20on%20Green%20Bonds%20and%20Climate%20Bonds%2020141211.pdf
[12] http://www.ofina.on.ca/greenbonds/greenbonds.htm
[13] http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/; http://www.climatebonds.net/standards

risks facing Canadian companies and their investors that bear deeper investigation if we are to achieve a smooth transition to a new low-carbon economy. We would recommend that BC provide support for research and other forums that further our understanding of the risks and opportunities facing Canadian companies and investors specifically.

In conclusion, we commend the government of BC for its leadership in continuing to develop an effective climate change strategy. We reiterate our support for the development of a robust and credible carbon policy framework that builds upon the success of the existing carbon tax and drives innovation that will benefit BC in the long term. We thank you for the opportunity to provide feedback and look forward to the outcomes of the consultation. For your further consideration, we have appended a copy of the *Canadian Investor Statement on Climate Change* from the Responsible Investment Association website. NEI is a supporter of this statement and believes that investor support for decisive government action on climate change has never been stronger.

If you have any questions regarding this letter please contact **Jamie Bonham, Manager, Extractives Research & Engagement, NEI Investments (jbonham@neiinvestments.com; +1-604-742-8328)**.

Sincerely,
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Appendix

Canadian Investor Statement on Climate Change Policy[14]

We consider climate change to be one of the greatest threats facing the planet and the global economy. Climate change also poses significant financial risk to investors, especially institutional investors who have a responsibility to generate financial returns far into the future.

Investors face a range of risks relating to climate change. Financial losses from extreme weather events, and the risk that assets could be negatively impacted by future carbon constraints, are just two examples. Continued delay in climate policy action, both within Canada and internationally, will increase our exposure to climate-related impacts, which are predicted to cost investors trillions of dollars over the coming decades.[15]

Canadian investors and policy makers face formidable challenges in attempting to address climate change. Canada is a vast country with low population density and an extreme climate.
Our economy is highly dependent on resource industries, and Canada is a major producer and exporter of oil. However, we also have a unique responsibility because of our abundant resources. Canada's boreal forests and temperate rainforests are among the world's greatest intact forests and serve as some of its most important carbon sinks.

We believe that investors can and should play an important role in addressing climate change through investment decision-making and corporate engagement. However, current policies and regulations in Canada treat carbon emissions largely as an unpriced negative externality. As a result, markets do not provide adequate incentives to shift investment toward less carbon-intensive activities, which would be in the long-term interests of investors and the economy as a whole.

As investors who are concerned about long-term financial returns as well as the stability and predictability of financial markets, we put forward the following policy recommendations to the federal and provincial governments to encourage the transition to a low-carbon economy.

1. **Establish clear, meaningful greenhouse gas emissions reduction targets.**
    - Set clear short-term and long-term targets for the stabilization and absolute reduction of greenhouse gas emissions.
    - Ensure targets are based on the objective of limiting the rise in average global temperatures to levels determined by agreements under the United Nations Framework Convention on Climate Change.
    - Establish clear timelines and enforceable mechanisms for meeting the targets.

2. **Implement effective carbon pricing.**
    - Phase in economy-wide carbon pricing at a meaningful level that makes low-carbon investment more attractive over time, in the form of an emission tax, a cap-and-trade system, or a combination of mechanisms.

3. **Put in place a clearly-articulated, comprehensive climate strategy.**

[14] http://riacanada.ca/can-investor-statement-on-climate-change-policy/
[15] Climate Change Scenarios – Implications for Strategic Asset Allocation. Mercer LLC. 2011.

The climate strategy should:

- Encourage energy efficiency, including enhanced efficiency standards for buildings, vehicles and equipment.
- Encourage the deployment of renewable energy and lower-carbon fuels.
- Encourage the development of green infrastructure and low-carbon transportation.
- Promote sustainable land use with a particular focus on preserving the ability of the boreal forest to act as a global carbon sink.
- Promote adaptation to address physical risks from climate change that can no longer be avoided.
- Ensure policies are equitable and seek to minimize adverse impacts for vulnerable groups and particular segments of society and the economy.
- Respect Aboriginal rights and consider Aboriginal interests.
- Enhance coordination of federal, provincial and territorial climate policies and targets.
- Create certainty and ensure that climate change policies have a long-term horizon.

4. **Integrate climate risk considerations into government decision-making.**
   - Identify climate risk factors and integrate them into future policy, funding, and programming decisions.
   - Develop and mandate adaptation standards for projects exposed to physical risk from climate change.
   - Ensure that environmental permitting processes address physical risks from climate change, projected emissions and future carbon-constrained scenarios.

5. **Create an enabling environment for climate-friendly investment.**
   - Increase support for the development and commercialization of technologies that reduce emissions and increase energy efficiency.
   - Phase out fossil fuel production subsidies.
   - Increase support for climate change research and ensure that findings are available to companies, the investment community and the public.
   - Support carbon markets and enhance Canadian companies' access to these markets.
   - Mandate disclosure by companies on climate risk, emissions management systems, and emissions performance.
   - Mandate disclosure by fossil fuel companies of potential carbon emissions embedded in reserves.
   - Mandate the inclusion of a responsible investment query in “Know Your Client” questionnaires to ensure that retail investors are made aware of investment options that address climate change.

6. **Demonstrate Canadian climate policy leadership.**
   - Participate constructively in multi-stakeholder efforts to develop equitable strategies to address climate change.
   - Participate constructively in international climate policy activities, including United Nations negotiations, bilateral and multi-lateral agreements, and climate funding mechanisms.