Cassels

Made in Canada: An Action Plan to Transition to a Greener Economy

A PROPOSAL TO DRAMATICALLY IMPROVE CANADA'S ESG QUOTIENT

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The opinions expressed in this paper are those of the authors and do not reflect the opinions of Cassels Brock & Blackwell LLP

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OVERVIEW

Over the past five decades, there has been considerable discussion about the global rise in greenhouse gas emissions (“**GHGs**”); however, to date, none of the action plans formulated to address this global crisis have demonstrated real promise, in terms of both meeting the targets set by international climate accords and avoiding disruptive climate change occurrences. Efforts to develop a workable international framework have been impeded by national economic priorities, driven by the diverging views of developed and undeveloped nations, and, in particular, the reticence of the United States to meaningfully engage.

Given that so many influential global leaders have failed to find a meaningful solution to the climate crisis, a world-wide action plan is currently unfeasible. A North American approach is likewise untenable: our neighbour to the south has indicated its intention to withdraw from the *Paris Agreement*, belying its intention to back away from tackling the climate problem.[1]

While Canada has, thus far, been a laggard in addressing climate change challenges, Canada could take the lead in developing a meaningful national strategy to reduce GHGs that could be emulated by other countries. Rather than merely disclosing the risks of climate change to their respective businesses, Canadian companies could affect a phased-in adoption of their own comprehensive, proactive, and transparent carbon mitigation plans. Committing to enhanced disclosure about climate-related information in the form of a carbon mitigation plan could represent the first of several steps in establishing Canada as a leader in the creation of a climate-smart economy.

CLIMATE CHANGE AWARENESS AND INTERNATIONAL CLIMATE ACCORDS[2]

THE MONTREAL PROTOCOL

According to *The Economist*, 1965 was the first year in which politicians were directly made aware of the impact of fossil fuel use on climate change.[3] And, as far back as 1975, Canadians were being made aware of the importance of pursuing practices that would lead to sustainability through the efforts of environmental activist, Dr. David Suzuki. In the decades that followed, a number of international climate accords were signed, some of which were more impactful than others. The *Montreal Protocol on Substances that Deplete the Ozone Layer* (“**Montreal Protocol**”), for instance, was one of the more successful international accords with regards to achieving its stated objectives. Signed in 1987, the Montreal Protocol is the only treaty to have been ratified by all members of the United Nations (197 members on ratification). The treaty sent clear signals to the global market, placing the depleting ozone layer on a path to repair.

THE UN FRAMEWORK CONVENTION ON CLIMATE CHANGE AND THE KYOTO PROTOCOL

At the Earth Summit in Rio de Janeiro in 1992, most nations of the world signed the *United Nations Framework Convention on Climate Change* (the “**UNFCCC**”), promising to “prevent dangerous anthropogenic interference with the climate system.” Five years later, the *Kyoto Protocol* was considered a major breakthrough in the

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[1] “On the U.S. Withdrawal from the Paris Agreement,” U.S. Department of State, Press Statement by Michael R. Pompeo, Secretary of State (November 4, 2019).

[2] The intent of this section is not to be exhaustive in covering all international climate change endeavours, but to provide a flavour of the extensive cooperative endeavours undertaken to date to address the problem.

[3] The Economist: “The Past, Present and Future of Climate Change,” September 21, 2019.

international recognition of climate change challenges and the need for cooperation. The signatories to the treaty committed to internationally binding emissions targets and the treaty introduced market-based mechanisms — including international emissions trading, clean development, and joint implementation — which member countries could use to meet their targets in a cost-effective way.

THE PARIS AGREEMENT

Building on the *Kyoto Protocol*, the *Paris Agreement* was ratified by 187 of the 197 state parties to the UNFCCC in 2015. Representing approximately 97% of global GHGs,[4] the signatories to the Paris Agreement are obligated to hold:

> …the increase in the global average temperature to well below 2°C above pre-industrial levels and [to pursue] efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.[5]

INTERNATIONAL CLIMATE CHANGE CONFERENCES IN 2019

In December 2019, no fewer than three separate international climate change conferences were held around the world, including the 25th conference of the parties to the UNFCCC, which was held in Madrid, Spain. That same month, in Brussels, Belgium, Ms. Ursula von der Leyen, the (then) recently-appointed head of the European Commission, unveiled the "*European Green Deal*." The plan contained vows to make Europe carbon neutral by 2050 and to reduce emissions in 2030 by 50 to 55% from 1990 levels. A notable policy outlined in the *European Green Deal* that would impact Canada was Europe's refusal to strike new trade deals with countries that were not in compliance with the *Paris Agreement*.

CLIMATE CHANGE AWARENESS AND TASK FORCE REPORTS

RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE

In December 2015, the Financial Stability Board[6] — which was launched after the G20 London Summit in April 2009 and chaired by Mark Carney[7] — established the *Task Force on Climate-related Financial Disclosures* ("**TCFD**"). In 2017, the TCFD published a widely endorsed report calling for voluntary, consistent, climate-related risk disclosures for use by companies worldwide.

In August 2019, the TCFD's recommendations were adopted by the Canadian Securities Administrators in Staff Notice 51-358 — *Reporting of Climate Change-related Risks* ("**Staff Notice 51-358**"). While neither creating new (nor modifying existing) legal requirements, Staff Notice 51-358 outlined relevant factors for consideration in assessing the materiality of climate change-related risks. Staff Notice 52-358 also provided examples of some of the types of climate change-related risks to which issuers may be exposed; included questions for boards and management to consider in the climate change context; and provided an overview of the disclosure requirements if an issuer chose to disclose forward-looking, climate change-related information.

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4 See footnote 1 re: the U.S. withdrawal from the *Paris Agreement* which will be effective on November 4, 2020.

5 *Paris Agreement*, Article 2, Section 1(a).

6 The G20 was established after the financial crisis demonstrated the impact of weak corporate governance.

7 Task Force on Climate-Related Financial Disclosures, "About — Task Force members."

The TCFD's approach to such disclosures has gained broad acceptance and, arguably, has fueled the process of engaging business in recognizing the importance of acknowledging the risks of climate change.

FINAL REPORT OF THE EXPERT PANEL ON SUSTAINABLE FINANCE

The *Final Report of the Expert Panel on Sustainable Finance* (the "**Canadian Sustainable Finance Report**")[8] was also released in Canada in 2019. The Panel had been established in 2018 to develop recommendations to encourage funding for low-carbon Canadian initiatives. The Panel's Canadian Sustainable Finance Report recognized the critical role of the private sector, with government support, to mobilize finance to accelerate the transition to a climate-smart economy and help businesses manage climate change. The objectives of the Report's recommendations sought to:

> …leverage Canada's financial acumen to facilitate and accelerate market activities, behaviours and structures that — at scale — could put Canada and its key industries at the forefront of the transition to a climate-smart economy.[9]

IMPEDIMENTS TO A REDUCTION IN GHGS

While the world has become increasingly sensitized to climate change and the imperative of combatting it over the past 50 years, the targets set in the 2015 *Paris Agreement* are not on track to being met and GHGs are rising, rather than falling. For example, in 2018, Canada had the highest GHGs per capita and the highest energy use per capita among G20 countries.[10] In addition, the cap-and-trade and carbon tax regimes — the most common schemes advanced — have failed to have a meaningful impact thus far. The reasons for this failure are primarily attributable to low carbon pricing mechanisms and the absence of political follow-through.

DEFERRAL OF MITIGATION MEASURES

In his book, "Climate Change: A Wicked Problem," author Frank Incropera addresses the issue of why, in spite of so much effort, so little progress is being made in combatting climate change. Incropera defines "wicked problems" as "inherently societal problems that may have a scientific or technical component. …[They are] matters of public policy, and in a pluralistic society with diverse interests, traditions and values there is seldom consensus on the problem, much less its solution."[11] The author describes the "wicked problem" of climate change and the inclination to put off measures to meaningfully address it as follows:

> Harmful effects of discharging GHGs into the atmosphere are manifested slowly, and absent measures to reduce emissions, serious consequences would increasingly be felt by future generations. This tendency to defer mitigation measures find sustenance in two premises. Because the measures have associated costs, why spend today's dollars to deal with a problem that is not at hand? We can deal with the problem if and when we have to. And, if there is a problem, it's global in nature, since all nations share the same atmosphere. Why

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[8] Environment and Climate Change Canada, *Final Report of the Expert Panel on Sustainable Finance — Mobilizing Finance for Sustainable Growth* (Gatineau: The Minister of Environment and Climate Change, 2019).

[9] Environment and Climate Change Canada, *Final Report of the Expert Panel on Sustainable Finance — Mobilizing Finance for Sustainable Growth* (Gatineau: The Minister of Environment and Climate Change Canada, 2019), Preface.

[10] "Canadians produce three times more greenhouse gas emissions than G20 average," *Globe and Mail* (November 14, 2018).

[11] Incropera, Frank. "Climate Change: A Wicked Problem," *Cambridge University Press*, October 2015.

should one nation or a group of nations step up and bear the costs of reducing GHG emissions if all nations aren't willing to do so?[12]

THE "SLOW BURN" CRISIS

In a 2019 interview with the BBC, Mark Carney addressed the difficulty in tackling the "slow burn" of climate change:

> I would say we're in a climate crisis just like a financial crisis where action needs to be taken now, this is a slow burn crisis, if you will, so it's more difficult to act because you don't have the public spectacle of a failing bank […]. That's part of the challenge, that's part of the tragedy on the horizon.[13]

ADDITIONAL OBSTACLES TO A REDUCTION IN GHGS

There are several additional impediments to reducing GHGs, including the fear of job losses and a reduction in national competitiveness; a shortage of capital dedicated to effecting change; a lack of access to requisite resources, fuel sources, and technologies; and the desire to maintain current lifestyles. The decision of the United States to file notice of its intention to withdraw from the *Paris Agreement* in November 2019 belied its lack of commitment to combatting climate change.

The notion of "climate equity"[14] — the idea that since developed nations have contributed disproportionately to GHGs, they should bear most of the cost of curtailing emissions — underscores another such impediment. Undeveloped countries feel entitled to a period of development to improve their living standards as rapidly as possible, without being saddled with the cost of mitigating GHGs.

THE CANADIAN CHALLENGE

Canada is a laggard in addressing the threat of climate change. As a large, fossil fuel-producing nation, we employ energy-intensive extraction methods and our overall per capita carbon footprint is high. However, notwithstanding that climate activists and impact investors would have Canada leave its fossil fuels in the ground, author Frank Incropera (referenced above) recognizes the need to address climate change without devastating the economy. He observed:

> [T]he world is awash in fossils fuels, and they will continue to be used, possibly throughout the century, [however, t]he challenge is to reduce consumption in ways that do not impair the global economy while significantly reducing the threat of climate change.[15]

This challenge is particularly salient in Canada and is exacerbated by the differences among provincial and territorial economies. Nonetheless, three-quarters of respondents in a recent Canadian poll conducted by Abacus Data indicated that they are "worried" about climate change, and 42% of respondents consider climate change an "emergency."[16] These results suggest that Canadians are willing to change.

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[12] Incropera, Frank. "Climate Change: A Wicked Problem," *Cambridge University Press*, October 2015.

[13] "Bank of England chief Mark Carney issues climate change warning," *BBC* (December 30, 2019).

[14] Incropera, Frank. "Climate Change: A Wicked Problem," *Cambridge University Press*, October 2015; Page 163.

[15] Incropera, Frank. "Climate Change: A Wicked Problem," *Cambridge University Press*, October 2015; Page xxii.

[16] That research from Abacus Data was commissioned by policy analyst, Seth Klein, to conduct a national public opinion survey as part of the research for Klein's forthcoming book on mobilizing Canada for the climate crisis.

THE ROLE OF BUSINESS IN COMBATTING CLIMATE CHANGE

MINING COMPANIES AND ENVIRONMENTAL STEWARDSHIP

While there is a clear role for governments to play in driving change, there is also an opportunity for businesses to contribute to the daunting challenge of fashioning a “climate solution.” Indeed, in the absence of regulation, the mining industry has steadily improved its environmental, labour, and human rights practices in operations around the world. Mining companies are expected to do more than merely identify the risk of accidents and environmental degradation: they are expected to hire experts, adopt policies and procedures, and link compensation to (and take responsibility for) mitigating such risks.

For at least the past 25 years, the boards of directors of mining companies have been expected to act as corporate stewards to imbue management with responsibility for adopting best practices and reporting back to the boards, shareholders, and public markets about the steps that have been taken to ameliorate risks and improve practices.

COMMITTING TO CARBON NEUTRALITY AND REDUCTIONS IN GHGS

Companies that make pronouncements to proactively address climate change may have an edge in the market. In Canada, Maple Leaf Foods recently announced that it is the first major food company in the world to achieve carbon neutrality.[17] Oilsands producer Cenovus Energy recently announced that it is aiming to achieve “net zero” GHGs by 2050, and that it will reduce its emissions per barrel by 30% by 2030 — all while keeping its total emissions flat.[18]

In Europe, Norwegian energy company Equinor ASA announced its goal to cut GHGs to near zero by 2050, in line with the *European Green Deal*.[19] In the United States, John Deere recently committed to a number of 2022 sustainability goals, including the reduction of GHGs by 15% by switching to 50% renewable energy supply and excellence in energy efficiency.[20]

“TAKING ACTION” WITH SCIENCE BASED TARGETS

The *Science Based Targets Initiative* (“**SBTi**”) is a collaboration between the CDP (formerly the “Carbon Disclosure Project”), the United Nations Global Compact, the World Resources Institute, and the World Wildlife Fund for Nature.[21] One of the We Mean Business Coalition commitments, the SBTi showcases companies that set science-based emissions reduction targets; defines and promotes best practices in science-based target setting; and independently assesses and approves companies’ targets.

When engaging with the initiative, companies must sign a commitment letter. They then have up to 24 months to develop and submit an emissions reduction target, with the assistance of resources provided by Science

[17] “Maple Leaf Foods becomes First Major Food Company in the World to be Carbon Neutral” (November 7, 2019).

[18] “Cenovus aims for 'net zero' GHG emissions by 2050,” *CBC* (January 9, 2020). See also “Climate & greenhouse gas (GHG) emissions.”

[19] “Equinor aims to cut emissions in Norway towards near zero in 2050” (January 6, 2020).

[20] “Deere Launches 2022 Sustainability Goals” (June 5, 2018). See also “101 Companies Committed To Reducing Their Carbon Footprint,” *Forbes*. (August 26, 2019).

[21] “About the Science Based Targets Initiative,” Science Based Targets.

Based Targets. The emissions reduction target is then validated by Science Based Targets (at a cost of USD$4,950, plus taxes); once validated, the target may be announced by the company.[22]

As of February 2020, several hundred companies world-wide were listed as "taking action" with Science Based Targets, including 14 Canadian companies. Of those 14 Canadian companies, Maple Leaf Foods, Canadian National Railway, and ALDO have each set publicly-available emissions targets. Sixty-eight companies based in the United States have set publicly-available emissions targets, including: Coca-Cola, PepsiCo, Tyson Foods, Wal-Mart, Procter & Gamble, Microsoft, Nike, Hewlett Packard, and Best Buy.

COMMITTING TO LEADERSHIP FOR ALL STAKEHOLDERS

These corporate announcements are consistent with a growing movement to broaden the type of stakeholders to whom companies are responsible. In the summer of 2019, 181 Chief Executive Officers signed the Business Roundtable *Statement on the Purpose of a Corporation*, committing to lead their companies for the benefit of all stakeholders. Bruce Flatt, the Chief Executive Officer of Brookfield Asset Management Inc. — one of the world's leading companies — wrote in his Q3 2019 letter to shareholders:

> Recently, the Business Roundtable came out with what they deem to be new standards on how business should conduct itself. […] Our basic starting point has always been that to sustain a business over the longer term, one must operate with high governance standards, respect the environment, and operate in a socially responsible manner. As a result, we have always aimed to operate with strong governance standards in every country in which we operate. This is an expectation that, once understood across an organization, ensures employees "know how to act." With respect to governance, as a fiduciary, we hold ourselves to very high standards. We have significant responsibilities to our stakeholders, including pensioners, countries, governments, investors, and employees. That does not mean we don't face difficult decisions from time to time; it does, however, mean that we strive always to act with integrity and to be transparent about how we solve each situation. We believe that being environmentally conscious is a requirement as a successful long-term investor, and our investments demonstrate this. Over the last few decades, we have assembled one of the largest privately-owned portfolio of renewable power facilities globally. We own ±$50 billion of hydro, wind and solar facilities—enough renewable power to serve the combined needs of Ireland and Denmark on an annual basis. In real estate, we have one of the largest portfolios of properties globally, a large percentage of which meet the highest standard of environmentally positive working environments. Our global tenants, many of whom are leading international companies, have been demanding this for decades, and we have worked with them for many years to ensure that we meet their advancing needs and expectations.[23]

MADE IN CANADA — AN ACTION PLAN

Canadian capital markets effectively attract and deploy risk capital, often when working cooperatively with government. Canada also has a history of (and reputation for) good corporate governance. Canada's ability to address the 2008 financial crisis, and emerge relatively unscathed, is a testament to Canadian corporate best practices and business ethics. It also represents a good precedent for a form of cooperative crisis management that could be employed in addressing climate change, as described below. While the voluntary, consistent,

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[22] "Step-By-Step Process," Science Based Targets.

[23] Brookfield Asset Management Inc. Q3 2019 Interim Report dated November 14, 2019, pages 7 and 8.

climate-related risk disclosure recommendations contained in the TCFD's report (as outlined above) provide a jumping-off point for a Canadian approach to the climate crisis, they may not go far enough to effect impactful behavioural changes: drafting climate risk disclosures for inclusion in the MD&A portion of a company's annual report may simply become *pro forma*.

CARBON REDUCTION BUSINESS PLANS

Rather than merely disclosing the risks of climate change to their respective businesses, Canadian companies could effect the phased-in adoption of their own proactive and transparent carbon mitigation plans. The SBTi (as outlined above) represents a reliable, robust, and sophisticated protocol for such a plan. An additional advantage for companies who "take action" with Science Based Targets would be adherence to the adage that "what gets measured, gets managed."

A voluntary "comply or explain" reporting system would encourage Canadian companies to develop carbon reduction business plans ("**CRBPs**") that include clearly defined targets; concrete strategies for carbon emission reduction; and a transparent, public reporting plan. The cost of implementing CRBPs would also be disclosed. In the future, a sophisticated CRBP could disclose GHGs through a company's entire value chain, including upstream and downstream operations and partnerships.

As is currently required under Canadian securities law for public companies, the reporting contained in a CRBP would need to be factual and balanced, with complete disclosure of both favourable and unfavourable information. Each company's CRBP would be publicly available, either on the company's website or, if the company is a reporting issuer, in its public filings.

As with the setting of achievable financial targets in the capital markets, each company could determine the level of sophistication of its CRBP; the more ambitious and detailed the GHGs reduction plan — and the more consistently that GHGs targets are met — the greater the reward, in the form of stakeholder and investor confidence and "moral currency."

THIRD-PARTY EVALUATIONS OF CARBON REDUCTION BUSINESS PLANS

Ultimately, CRBPs could be independently evaluated, based on factors including detail and scope; level of transparency; degree of innovation; and, most importantly, efficacy. Such evaluations could be conducted by companies that have already developed ESG assessment tools, such as S&P Global Ratings, Fitch Ratings, Sustainalytics, and Institutional Shareholder Services. Third-party evaluations would lend further credibility to quality CRBPs and raise the standard by which competitor CRBPs are evaluated by shareholders, investors, governments, clients, and customers.

GUIDELINES ON REPORTING CLIMATE-RELATED INFORMATION

The June 2019 *European Commission Guidelines on Reporting Climate-Related Information* ("**EC Guidelines**") encouraged companies to disclose the principal risks to their development, performance, and position resulting from climate change, as well as the negative impact that their activities have on the climate. The EC Guidelines also advocated the disclosure of a company's policies (and any associated targets) that demonstrate its commitment to climate change mitigation and adaptation, including how the company engages with upstream and downstream partners to promote climate mitigation and/or adaptation.[24]

[24] "Guidelines on reporting climate-related information," European Commission (June 18, 2019).

Building on the EC Guidelines, Canadian companies could develop policies and targets (eventually including costing parameters) and then regularly report on their progress in meeting such targets in the same way that they currently report on their progress toward meeting financial targets. With collective effort, this strategy may foster material improvement and the development of best practices and enhance Canada's international reputation. The responsibility of Canadian companies to effectively address the challenges of climate change is not absolved by the fact that other nations have failed to do so.

ADVANTAGES OF ADOPTING A CRBP

There are many advantages to adopting and achieving the targets set in a CRBP. While companies that fail to adopt emissions reduction plans may suffer a loss of social capital, brands that adopt and promote such plans achieve recognition and improved social currency. Despite the fact that allegations of "green-washing" are tarnishing the actions of some companies, high quality, comprehensive CRBPs that include transparent targets — the achievements of which are reported to the public — are enhancing companies' social capital and combatting such allegations.

Enhanced disclosure about climate-related information in the form of a CRBP may also attract a more diverse investor base and a potentially lower cost of capital. This is a direct result of inclusion in actively-managed investment portfolios and sustainability-focused indices, improved credit ratings for bond issuance, and enhanced credit-worthiness assessments for bank loans.[25] As was written in the EC Guidelines:

> Without sufficient, reliable and comparable sustainability-related information from investee companies, the financial sector cannot efficiently direct capital to investments that drive solutions to the sustainability crises we face, and cannot effectively identify and manage the risks to investments that will arise from those crises.[26]

THE INTEGRATION OF ESG FACTORS IN INSTITUTIONAL INVESTING

In the face of concerns over climate change and growing investor demand for responsible investing practices, the capital markets have been exerting an influence on business behaviour for decades. Ethical or responsible investing began in the 1960s and is widely understood as the integration of environmental, social, and governance ("**ESG**") factors into investment processes. According to a recent article on the rise of ESG investment,[27] ESG investing represents over $20 trillion in assets under administration — roughly one-quarter of all professionally managed assets.

Numerous reports demonstrate that ESG investing can be just as (or more) profitable than traditional investment portfolios. Arguably, this is because companies that have embraced ESG policies are more forward-looking, better prepared for future challenges, and, accordingly, more agile.

THE 2019 RESPONSIBLE INVESTMENT SURVEY

Institutional investors are moving towards investing in companies with high ESG credibility in Canada, the United States, and the European Union. According to RBC Global Asset Management's *2019 Responsible Investment Survey* ("**RBC Survey**"), 70% of institutional investors use ESG principles as part of their investment approach and decision-making. On a regional basis, 97% of institutional investors in the United

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[25] "Guidelines on reporting climate-related information," European Commission (June 18, 2019); Page 4.

[26] "Guidelines on reporting climate-related information," European Commission (June 18, 2019); Page 4.

[27] Georg Kell, "The Remarkable Rise Of ESG Investing," *Forbes* (July 11, 2018).

Kingdom and 80% of institutional investors in Canada "significantly" or "somewhat" adopt ESG factors as part of their investment approach. In the United States, ESG adoption was flat, when compared with 2018, at around 65%.[28] In Canada, OMERS,[29] CPPIB,[30] and the Caisse de Dépôt[31] have adopted robust ESG investment policies that place a priority on mitigating climate change. Companies that adopt a comprehensive CRBP will undoubtedly be more attractive to these institutional investors.

THE RISE IN CANADIAN GREEN BOND ISSUANCES

Green bonds are a way of raising money, the proceeds of which are dedicated to new or existing projects that are intended to have positive environmental or climate effects. The green bond market has experienced huge growth over the past few years, both in Canada and globally.[32] In 2019, RBC issued its first ever green bond in the amount of €500 million to fund renewable energy projects and sustainable buildings. In 2018, there were approximately 1,543 green bond issuances, totaling USD$167.6 billion. In 2019, there were 1,788 green bond issuances, totaling a new global record of USD$257.7 billion.[33]

While green bonds historically have been issued by federal, provincial, or municipal governments, they are increasingly being issued by private entities. The tables below highlight some notable Canadian green bond issuances in 2018 and 2019:[34]

Notable 2018 Canadian Green Bond Issuances		(CAD)
CPPIB Capital Inc.	ten-year	$1.5 billion
Province of Ontario	seven-year	$1.0 billion
Manulife Financial Corporation	ten-year	$800 million*
Province of Quebec	five-year	$500 million
Ontario Power Generation	30-year	$450 million*
South Coast British Columbia Transportation Authority (Translink)	ten-year	$400 million*
Brookfield Renewable Partners L.P.	ten-year	$300 million
City of Toronto	30-year	$300 million*
City of Vancouver	ten-year	$85 million*
** Inaugural green bond issuance*		

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[28] "New survey from RBC Global Asset Management uncovers diverging views on responsible investing among institutional investors," RBC Newsroom (October 16, 2019).

[29] "OMERS Sustainable Investing Policy"

[30] "2019 Report on Sustainable Investing: Investing Responsibly for CPP Contributors and Beneficiaries," CPPIB (2019).

[31] "2018 Stewardship Investing Report," Caisse de Dépot et Placement du Québec (2018).

[32] A complete survey of the international green bond market is beyond the scope of this article, but the Investment Industry Association of Canada has prepared a useful position paper titled "Opportunities in the Canadian Green Bond Market v.3.0" (June 2019). See also "Green with Envy: Canada's Green Bond Market is Growing into a Global Player," DBRS (May 2019).

[33] *Climate Bonds Initiative*, "2019 Green Bond Market Summary" (February 2020).

[34] "Green with Envy: Canada's Green Bond Market is Growing into a Global Player," DBRS (May 2019).

Notable 2019 Canadian Green Bond Issuances		(CAD)
Ontario Power Generation	30-year	$550 million
Algonquin Power & Utilities Corp	ten-year	$300 million*
CPPIB Capital Inc.	ten-year	$1.5 billion (€1 billion)
Province of Quebec	five-year	$800 million
Royal Bank of Canada	five-year	$750 million (€1 billion)*
** Inaugural green bond issuance*		

Even though having a CRBP would not necessarily qualify a company that is not already eligible to receive proceeds from government or private enterprise green bond issuances, a meaningful CRBP could incorporate new (or existing) projects that would have positive effects on a company's carbon footprint. Such projects could potentially attract green bond financing or allow a company to partner with a recipient of proceeds from green bond issuances.

THE CASE FOR TRANSITION BONDS

There is also growing interest in "transition" bonds, particularly for companies that do not qualify for green bond issuances. Issuers of transition bonds must commit to shifting to more sustainable business practices. The proceeds of a transition bond are used to fund a company's transition towards reducing its carbon emissions or broader environmental impact.

For instance, on July 30, 2019, Marfrig Global Foods ("**Marfrig**") announced the issuance of USD$500 million of "sustainable bonds" coordinated by Santander, ING, BNP, Banco do Brasil, Bradesco, BTG, Nomura, HSBC, XP, and Rabobank. One of the world's leading beef producers, Marfrig must invest the proceeds from the sustainable transition bonds in sourcing cattle from farmers who meet the requirements and criteria established in Marfrig's sustainable sourcing protocol.

Marfrig also announced that its sustainability practices were audited by the French firm, Vigeo Eiris, one of the world's leading certification authorities. Vigeo Eiris concluded that Marfrig met the sustainability requirements and best practices set by the International Capital Market Association.[35]

TRANSITION BOND GUIDELINES

In June 2019, AXA Investment Managers published a set of transition bond guidelines (the "**TB Guidelines**") that advocated "regular and comparable reporting on […] environmental performances and outcomes." The TB Guidelines noted that "Senior management and board directors should make a commitment to align their business with meeting the COP21 Paris Agreement goals."[36] Based on the recommendations set out in the TB Guidelines, Canadian businesses that take the initiative in implementing a meaningful CRBP may find it easier to access transition financing.[37]

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[35] "Vigeo Eiris Second Party Opinion on the Sustainability of Marfig Global Food's Sustainable Transition Bond"

[36] "Financing brown to green: Guidelines for Transition Bonds," AXA Investment Managers (June 10, 2019).

[37] For further information, please see "Transition Bonds," published by the Institute for Sustainable Finance.

A COMMITMENT TO SUSTAINABLE FINANCE

Most major Canadian banks have made huge commitments to sustainable finance. In 2018, TD Bank announced it was setting a $100 billion target for low-carbon lending, financing, asset management, and other programs, to be met by 2030.[38] In 2019, BMO doubled its mobilization for sustainable finance to $400 million and created an impact investing fund with $250 million in seed capital to find and scale solutions to clients' sustainability problems.[39] CIBC announced a commitment to support $150 billion in environmental and sustainable finance activities by 2027.[40] Likewise, Scotiabank announced its commitment to both mobilize $100 billion by 2025 to reduce the impacts of climate change and to decarbonize its own operations.[41]

SUSTAINABILITY-LINKED LOANS

According to Sustainalytics, sustainability- or ESG-linked loans are general corporate purpose loans used to incentivize a borrower's commitment to sustainability and to support environmentally and socially sustainable economic activity and growth. For example, Bank of Montreal provided a $100 million "sustainability-linked loan" to Maple Leaf Foods in December 2019. The loan provides for an interest rate reduction if Maple Leaf Foods both meets set targets for the reduction of electricity use, water use, and solid waste, and continues to reduce its carbon emissions.[42]

THE LOAN MARKET ASSOCIATION'S SUSTAINABILITY-LINKED LOAN PRINCIPLES

The sustainability-linked loan principles set out by the Loan Market Association state that "[t]he borrower's sustainability performance is measured using sustainability performance targets (SPTs), which include key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile."[43] As with transition financing, a comprehensive CRBP would be a pre-requisite for a company that was exploring any sustainability-linked loan options. Hitting the targets set out in a CRBP would allow a company to avail itself of the benefits set out in similar loan documentation.

NEXT STEPS IN CREATING A CLIMATE-SMART ECONOMY

The next major step in positioning Canada as a world leader in the creation of a climate-smart economy would be to convince Canadian companies of the merits of adopting a CRBP, including the benefits that Canadian companies will ultimately derive from such plans. Adopting a CRBP could be viewed as a crucial step in the evolution of corporate social responsibility. Top Canadian companies have embraced the notion of corporate social responsibility for many years and this ethos has significantly aided Canadian companies in developing their businesses internationally.[44]

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[38] "Low Carbon Economy," TD Ready Commitment (March 2018).

[39] "BMO Unveils Commitments to "Double the Good" for Thriving Economy, Sustainable Future, and Inclusive Society," BMO Newsroom (June 7, 2019).

[40] "CIBC announces $150 billion in Environmental and Sustainable financing by 2027," Newswire (September 24, 2019).

[41] "Scotiabank's Climate Commitments," Scotiabank Media Centre (November 14, 2019).

[42] "Maple Leaf Foods and BMO Capital Markets enter into First Sustainability-Linked Loan in Canada," BMO Newsroom (December 11, 2019).

[43] "Sustainability Linked Loan Principles," Loan Market Association (March 2019).

[44] "Blake Hutcheson in conversation with Bruce Flatt: Real Estate and the Global Investment Landscape: The state of the industry and where it will go from here," Speaking engagement at the e Club of Canada on November 28, 2019. Please also see footnote 23, above.

In the same way that the establishment of health, safety, environmental, and human resources committees — and sexual harassment policies and inclusion practices — have become basic thresholds for well-run businesses, GHGs reduction plans could become mainstream for every Canadian company's business. If the adoption of a cogent CRBP can be encouraged now, then shareholders, lenders, customers, and other stakeholders may eventually pressure companies that do not get on board on their own to improve their practices.

Both the imperative of ethical self-governance and the exertion of pressure from various stakeholders could be very impactful in fostering the adoption of CRBPs. The absence of a CRBP may one day become as unacceptable as unfair labour practices, low employee wages,[45] or a refusal to address sexual harassment and diversity issues.

AREAS FOR FURTHER STUDY

Several other significant steps — such as identifying specific technologies to abate GHGs for specific industries and understanding the economics of (and identifying the funding sources for) the deployment of such technologies — are beyond the scope of this paper.

Dr. David Wheeler, co-founder of the Academy for Sustainable Innovation, observed that "[a]ddressing climate and sustainability without mobilizing the capital markets is whistling in the wind."[46] Accordingly, the subject of tax incentives, and the attendant mobilization of pools of capital to finance carbon abatement projects, will be addressed in a subsequent paper.

[45] See the article "The 12 biggest companies paying workers the least" in *USA Today* (December 1, 2012) and, more recently, the article "Amazon facing accusations of unfair labour practices in Ontario" in *The Globe and Mail* (January 30, 2019).

[46] "Sustainability goes mainstream for business education," *Globe and Mail* (March 10, 2020).