

Are Canadian Businesses Aware of the Need to Manage Greenhouse Gas Emissions?



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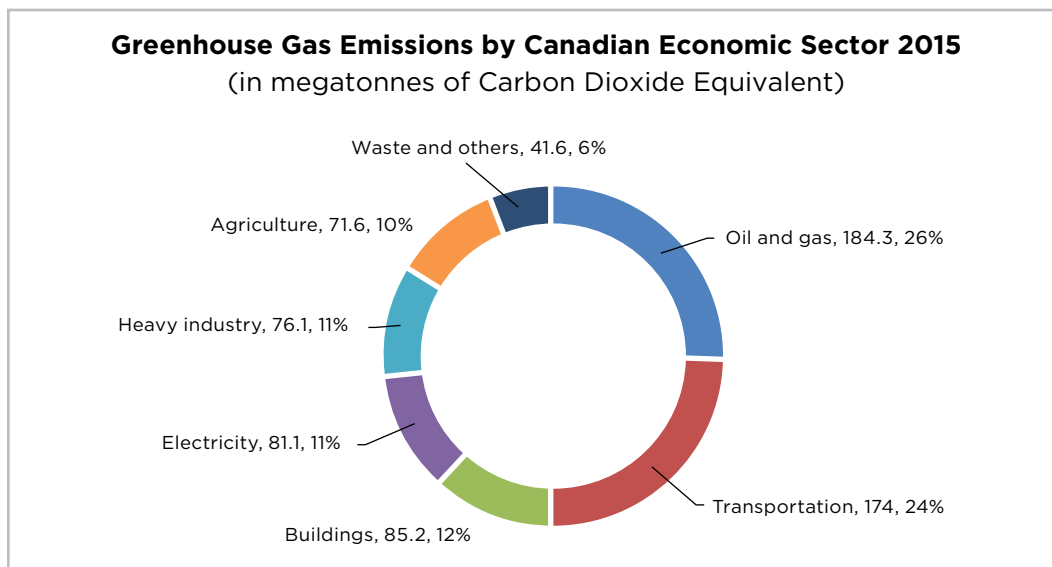
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Background Context

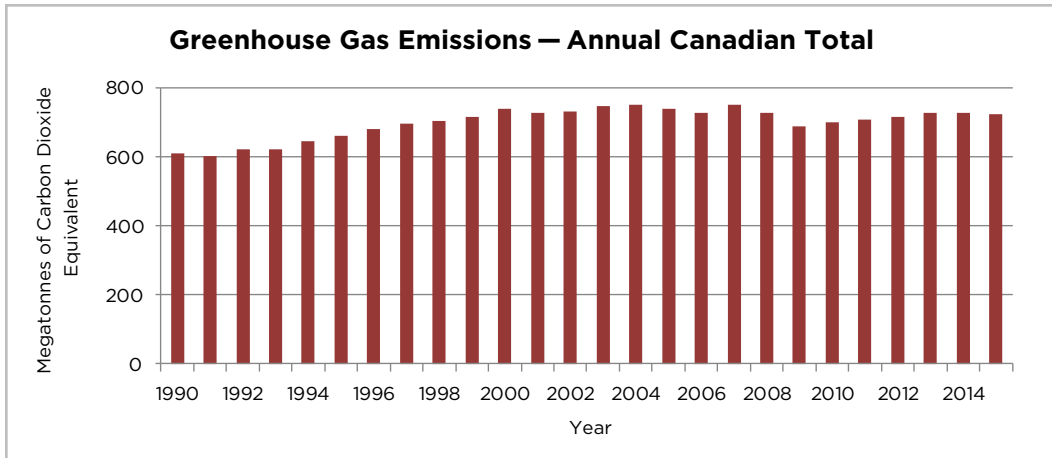
Climate change is driving new political and economic realities for businesses. The World Economic Forum's 2018 Global Risks Report¹ cites extreme weather events, natural disasters and the failure of climate change mitigation and adaptation as among the top five global risks in terms of likelihood and impact.

The Paris agreement was signed by over 195 countries in December 2015 and subsequently came into force in November 2016. The Paris Agreement seeks to limit global temperature rise this century to “well below 2 degrees Celsius”. It is widely recognized that in order to meet this ambitious goal, deep reductions in global greenhouse gas (GHG) emissions are required by 2030. Under the Paris Agreement, Canada's federal government has committed to reducing the country's greenhouse gases by 30% below 2005 levels by 2030.



Source: Environment and Climate Change Canada (2017) Canadian Environmental Sustainability Indicators: Greenhouse Gas Emissions. www.ec.gc.ca/indicateurs-indicators/default.asp?lang=En&n=FBF8455E-1

¹ “Insights Report—The Global Risks Report 2018, 13th Edition”, World Economic Forum Accessed 22.01.2017. <http://wef.ch/risks2018>. ISBN: 978-1-944835-15-6



Source: Environment and Climate Change Canada (2017) National Inventory Report 1990–2015: Greenhouse Gas Sources and Sinks in Canada.

The Pan-Canadian Framework on Clean Growth and Climate Change (the Framework) is Canada’s plan to reduce GHG emissions, grow green businesses and adapt to climate change by pricing carbon pollution across the country. A key pillar of the Framework is a national price on carbon. In 2017, existing and planned carbon pricing systems covered nearly 85 per cent of the Canada’s population and economy². British Columbia has a carbon tax on emissions, Alberta has a hybrid system that combines a carbon tax with a performance-based system for large industrial emitters, and Ontario and Quebec have cap and trade systems. The Government of Canada will impose a federal backstop in provinces that do not have a system in place by March 31, 2018. For those provinces that elect to develop their own carbon pricing system, they must outline the details no later than September 1, 2018.³

CPA Canada partnered with FEI Canada and its research foundation, CFERF, to conduct a study to understand how Canadian businesses were managing GHG emissions, including their level of awareness of GHG emissions reporting requirements under existing and planned carbon pricing legislation. This report is intended to spur dialogue amongst the business community on the opportunities and challenges associated with reducing GHG emissions in response to climate change.

The study includes results of an online survey as well as insights gathered from senior finance executives at roundtable discussions held in Vancouver, Calgary and Toronto. [Appendix A](#) provides a demographic breakdown of the survey participants and [Appendix B](#) lists the participants in the research roundtable.

² Source: Government of Canada, Department of Environment and Natural Resources. www.canada.ca/en/services/environment/weather/climatechange/pan-canadian-framework/pricing-carbon-pollution1.html

³ www.cbc.ca/news/politics/carbon-pricing-draft-legislation-1.4487421

Who We Surveyed

This report was prepared by Canadian Financial Executives Research Foundation (CFERF), the research arm of FEI Canada, together with its research sponsor CPA Canada. It is based on the results of an online survey of 141 completed surveys from finance executives from across Canada conducted between November 9, 2017 and November 21, 2017, though responses from executives who did not complete the entire survey were also used.

The survey includes results of an online survey, as well as insights gathered from senior finance executives at roundtable discussions held in Vancouver, Calgary and Toronto. These insights were used to supplement the survey findings with quotes from the discussions. The discussion was held on November 15, 2017. For a full list of participants, refer to [Appendix B](#).

The majority (70%) of respondents were from small and medium-sized enterprises:

- 44% 100 employees or less (small)
- 26% between 101 and 500 employees (medium)
- 26% over 500 employees (large)
- 4% prefer not to say

The majority (89%) of respondents were from industry:

- 62% were privately held
- 27% were publicly listed
- 11% were other (e.g., not for profit, government, crown corporation, service firm)

The top 3 industries represented in the survey were:

- Manufacturing—21%
- Extraction—12% (Mining, Oil & Gas)
- Construction—10%

All companies surveyed have operations in Canada.

- 55% operate in Ontario
- 47% operate in Alberta
- 42% operate in British Columbia
- 27% operate in Quebec

Virtually all (96%) respondents hold a CPA designation.

For more detailed demographic information, see [Appendix A](#).

What We Learned

1. The level of awareness about existing and planned Canadian carbon pricing legislation and associated GHG emissions reporting regulations by respondents varied by jurisdiction. Jurisdiction is important as Canada does not have a harmonized system and many companies operate in more than one province.
2. A number of respondents may not have established a process in place to determine if they exceed the reporting threshold in the federal GHG emissions reporting requirements and therefore need to submit annual GHG emissions reports to the federal government.
3. The majority of respondents (63%) are not currently tracking GHG emissions and have no plans to begin tracking them.
4. Respondents tracking GHG emissions (15%) appear to be doing so for the purpose of government compliance reporting— not financial or other stakeholder reporting.
5. The majority of respondents (71%) indicated the CFO does not have primary responsibility for GHG emissions reporting and management.

What It Tells Us

1. There is an opportunity for awareness education about current and planned Canadian carbon pricing legislation and GHG emissions reporting regulations.
2. Companies should consider performing baseline GHG emissions inventories at each of their facilities to ensure they are meeting compliance reporting requirements in their respective jurisdictions, especially with the reporting threshold decreasing as of January 1, 2018. This is critical for small and medium-sized enterprises, which comprised the majority of respondents in this study.
3. Companies should establish appropriate systems, processes and internal controls over GHG emissions data and information, especially for those sectors with greater exposure to climate risk (e.g., oil & gas, transportation, buildings, electricity, heavy industry, etc.)
4. Companies should consider the impact of climate change and associated regulation on risk management, strategy and operations, including conducting a materiality assessment.
5. There is an opportunity for accounting and finance professionals to contribute their skills and competencies to managing and reporting of GHG emissions.

Discussion of Learnings

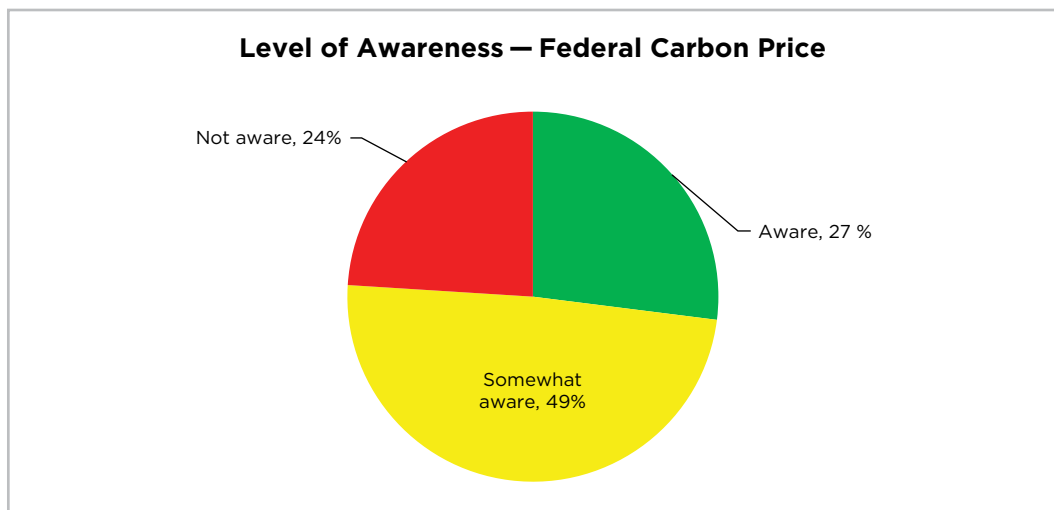
1. Awareness

The level of awareness about existing and planned Canadian carbon pricing legislation and associated GHG emissions reporting regulations by respondents varied by jurisdiction.

Federal Backstop

Respondents were asked about their awareness of the federal government's backstop, which will take effect by the end of 2018 and apply to all jurisdictions that do not have their own carbon pricing legislation in place. The results were as follows:

- Over three-quarters (76%) indicated they are aware (27%) or somewhat aware (49%).
- Almost one-quarter (24%) of respondents say they are not aware.



Provincial Carbon Pricing Legislation

Respondents were also asked about their awareness of existing carbon pricing legislation at the provincial level in jurisdictions where they had operations.⁴

The results were as follows:

Jurisdiction	Aware	Somewhat Aware	Not Aware
British Columbia	28%	36%	36%
Alberta	37%	41%	22%
Ontario	21%	42%	37%
Quebec	15%	39%	46%

Factoring Carbon Pricing into Decision-Making

Roundtable participants noted that carbon pricing legislation could be relevant to business decision-making and could impact both revenues and costs, depending on materiality.

That's also the case at exploration services firm Divestco Inc. in Calgary. "The oil industry isn't going anywhere. If you want to be successful you have to build this tax into pricing going forward," says the company's CFO, Danny Chiarastella.

Attracting and Retaining Talent

When asked about their perceptions of employees' awareness of the organization's GHG emissions reporting and management:

- Only 11% believed employees were aware or very aware.
- An additional 21% believed employees were somewhat aware.
- The remainder (68%) believed employees were not at all aware, didn't know or said it was not applicable.

Roundtable participants noted shifting societal values and expectations around issues such as climate change and sustainability as an opportunity for organizations to attract and retain talent.

⁴ The results in the table are a sub-set of total respondents. For each province respondents are included if their company has operations in the specific province. In some instances, respondents may have answered for more than one province if their company has operations in more than one province.

“Sustainability is part of our overall strategy for the company and is part of our goals and objectives in our operating plans. A sustainability agenda is absolutely critical to attract and retain employees. It is fundamental to creating value in our company, our customers demand it and we are establishing a brand around sustainability and energy abatement.”

Robert J. Dietrich—CFO, S.A. Armstrong Limited (Armstrong Fluid Technology)

“If you ask any large recruitment firm for, especially Gen Y coming in, why do they want to work for your company? Sure compensation is obviously a driver, interesting job, et cetera, but one of the drivers that keeps being repeated to me is the question, ‘are you with a progressive organization that’s a leader in everything that’s progressive including sustainability.’”

Timm Kukler—CFO of Nexterra Systems Corp.

Organizations such as Sodexo, a French food services and facilities management company operating in Canada, communicate with both its employees and external stakeholders about promoting sustainable sourcing practices and optimize natural resource consumption. For example, on its website, Sodexo has identified eight commitments for protecting the environment which include energy and emissions.

“We have a global committee dedicated to sustainability and ensuring mandates are cascading across the globe. Every employee is aware of our mandate and is working towards meeting our target of a 34% reduction”.

Mohini Matadeen—Finance Director, IFM, Sodexo Canada

International Operations Improve Awareness

Roundtable participants serving a global market are quick to point out that external stakeholders in other parts of the world are both aware and keenly interested in efforts to reduce carbon emissions.

“In many developing countries, there is interest in GHG reduction from customers. In China, for instance, they are much more focused on it than North America. Having products that are demonstrably competitive and green provides a competitive advantage in these markets.”

Bob MacBean—CFO, Environmental Waste International Inc.

“Our markets are mostly outside Canada. International customers are very aware when it comes to climate change. They are looking to our technologies to help them reduce their own emissions,”

Robert J. Dietrich—CFO, S.A. Armstrong (Armstrong Fluid Technology)

“Most of our clients are committed to reducing their carbon footprint. By sharing this same focus, it gives us an advantage to win those big contracts. Banks and schools want to partner with companies like us. These larger global accounts want more than a shared focus. They expect us to provide KPIs tied to our carbon emissions. To stay competitive, we have to do it.”

Mohini Matadeen—Finance Director, IFM, Sodexo Canada

“Multinational customers are keenly interested in the carbon footprint of our products and the components in our products. They are putting requirements for reporting carbon footprint in supply agreements. This will just continue to grow as a requirement,”

Robert J. Dietrich—CFO, S.A. Armstrong Limited (Armstrong Fluid Technology)

Mohini Matadeen, finance director at Sodexo Canada, credits her company’s high awareness to the leadership position the parent company, based in France, has taken. “We have a plan in place to reduce our carbon emissions by 34% by 2025. It is driven by our global CEO and has been mandated globally.”

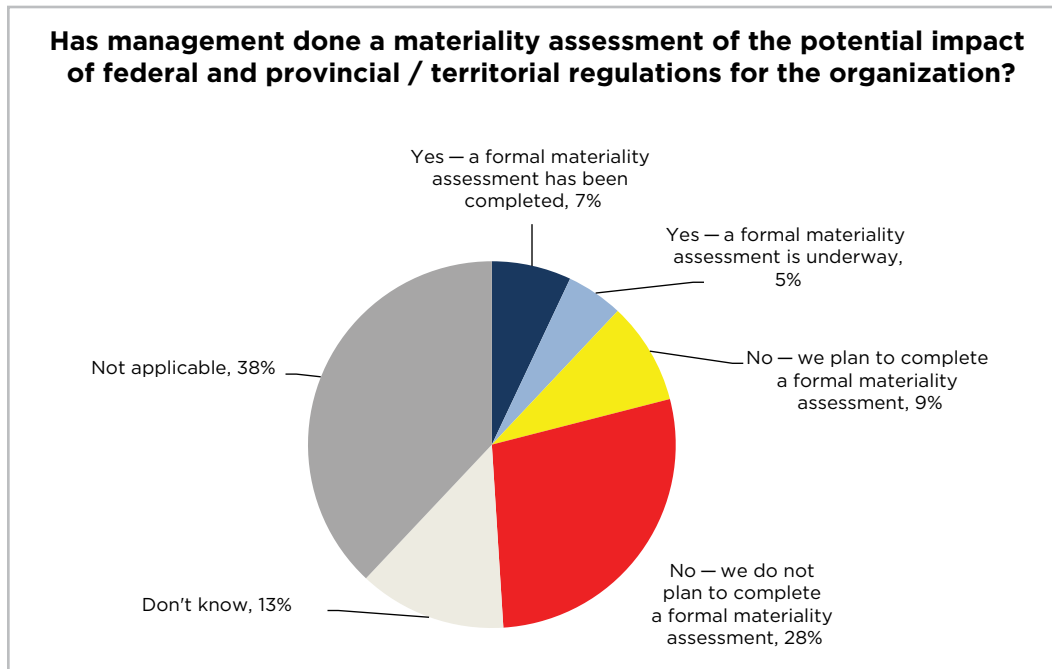
2. Applicability of Mandatory GHG Reporting

Only 21% of respondents have done or are working on a materiality assessment and 13% did not know if their companies had done an assessment. It is unclear how many respondents have a process in place to determine if they exceed the reporting threshold in the federal GHG emissions reporting requirements and therefore need to submit annual GHG emissions reports to the federal government. Further, 64% of respondents believe current and proposed GHG emissions legislation will have low to no financial impact on their organization.

Entities must evaluate whether lowered mandatory reporting thresholds now require them to submit GHG emission inventory reports to the government – recall that the reporting threshold was reduced from 50,000 tonnes of carbon dioxide equivalent (tCO₂e) to 10,000 tCO₂e as of January 1, 2018.⁵ The reduced threshold increases the number of facilities required to submit annual reports under the mandatory federal government’s Greenhouse Gas Reporting Program (GHGRP), which has been in place since March 2004. This is especially critical for small and medium-sized enterprises, which comprised the majority of respondents in this study.

5 www.canada.ca/en/environment-climate-change/services/climate-change/greenhouse-gas-emissions/facility-reporting/reporting.html

Only 12% of respondents have completed (7%) or are in the process of completing (5%) a formal materiality assessment of the impacts of existing and planned carbon pricing legislation. In addition, 9% of respondents are planning to complete one.



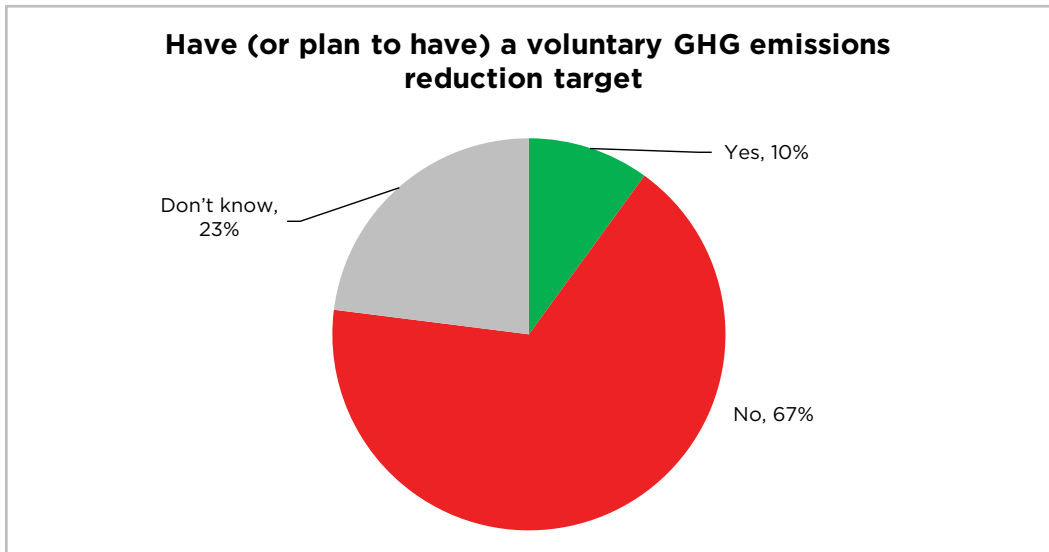
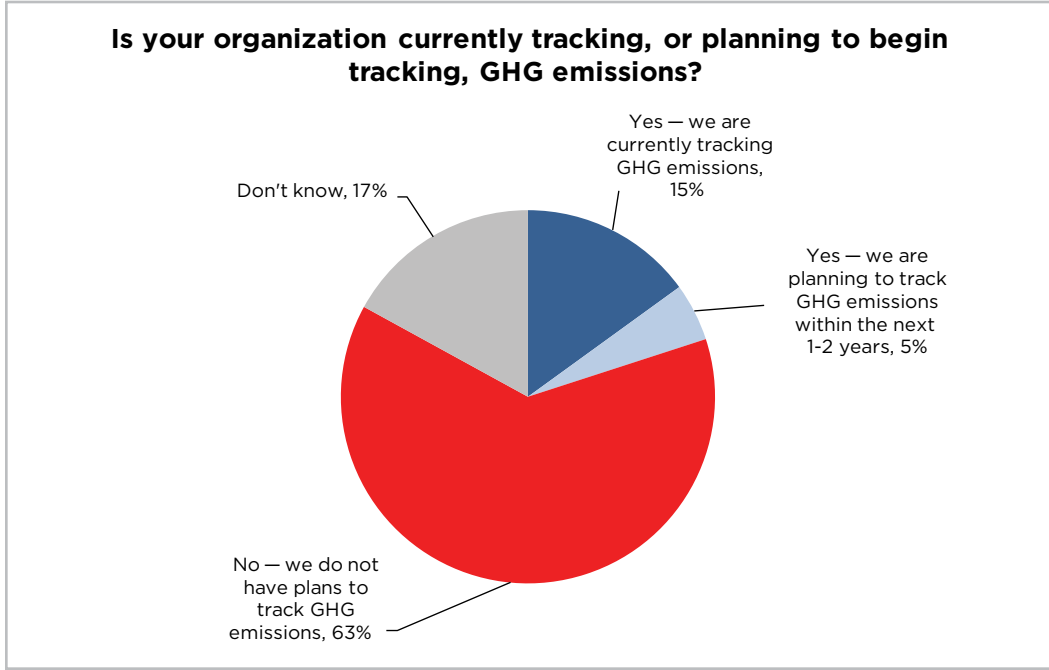
For those provinces and territories without an existing or planned carbon pricing system, the federal backstop will apply in 2019. The federal backstop will impose a minimum carbon price of \$20 a tonne in 2019, increasing by \$10 per year to \$50 per tonne in 2022. As carbon prices increase over time, companies are advised to continue to assess materiality.

3. Tracking GHG Emissions

The majority of respondents (63%) are not currently tracking GHG emissions and have no plans to begin tracking them. Companies, whether small and medium sized or large, should evaluate the costs and benefits of tracking GHG emissions. Companies of all sizes may identify benefits with being perceived as doing their part to reduce GHG emissions whether or not they are close to meeting the recently reduced threshold for mandatory reporting of GHG emissions.

Only 20% of respondents are currently tracking GHG emissions (15%) or planning to begin tracking (5%) within the next 1-2 years. It is worthwhile noting that 10% of respondents stated their organizations have, or plan to have, voluntary GHG emission reduction targets.

The remainder of respondents (17%) didn't know whether their organization was tracking, or planning to begin tracking, GHG emissions.



“Every part of our organization is working towards meeting a 34% reduction in carbon emissions by 2025 (compared to a 2011 baseline). The target is tied to the Paris Agreement and is closely connected to our culture as a company, which is focused on the quality of life—of not just our employees but of the people we serve. For management, part of their bonus is tied to reducing greenhouse gas emissions. Since we began measuring the reduction in carbon emissions we’re achieving, we’re seeing the impact and emissions continue to trend down. We can see the target is achievable.”

Mohini Matadeen – Finance Director, IFM, Sodexo Canada

Roundtable participants suggest this is a missed opportunity as there is a business case to be made for operating in a more sustainable manner—a strategy that is most likely to take root when sectors take the time to review their carbon footprint. There is a perceived competitive advantage to be had and goodwill to be gained in focusing on environmental responsibility.

“Our industry [HVAC equipment] sells to large buildings. It is an advantage for us to have a sustainability program and participate in globally recognized projects. We have elected to join the Carbon Disclosure Project. A lot of work goes into collecting the information for CDP but that’s the way our industry is going.”

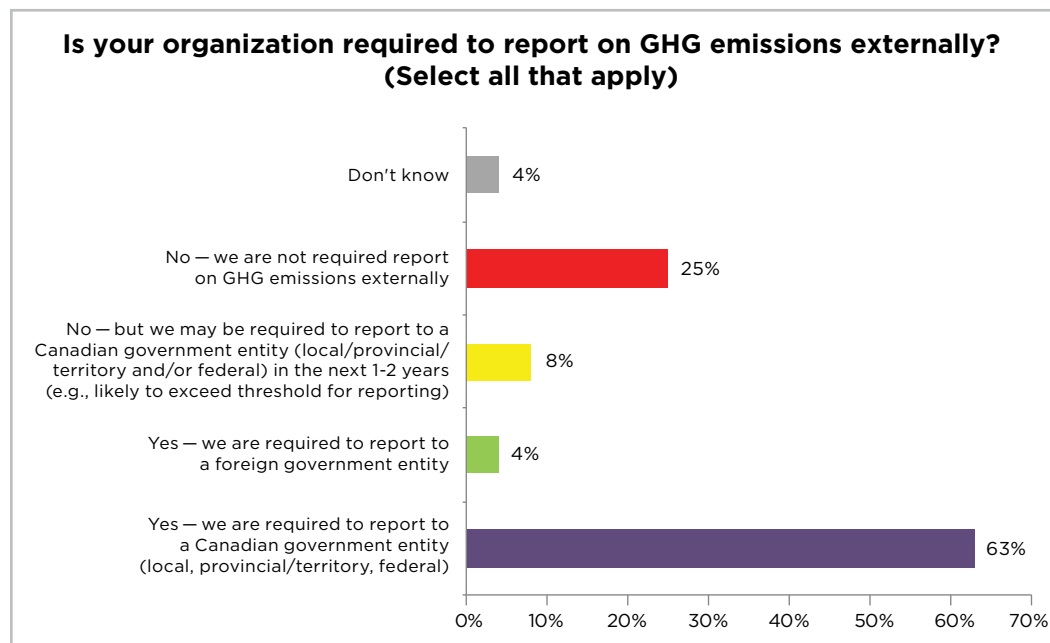
Robert J. Dietrich—CFO, S.A. Armstrong Ltd.

“We are producers of steam for space heat to 200 customers and produce between 80,000 and 90,000 tonnes of GHG per year. As such, we are required to report our emissions. As a company, we want to be more socially responsible and use efforts to reduce emissions as a Key Performance Indicator.”

Paul Tai—CFO, Creative Energy Vancouver Platforms Inc.

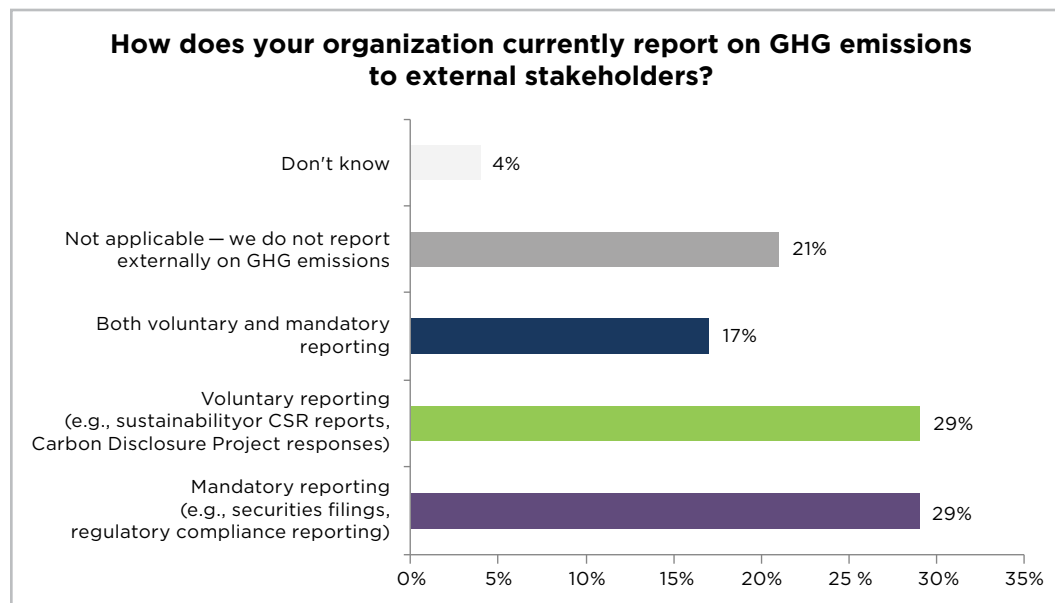
4. Reporting GHG Emissions

The results in this section are a sub-set of total respondents: it only includes the 15% of total respondents that indicated they are currently tracking GHG emissions. Respondents tracking GHG emissions appear to be doing so primarily for the purpose of government compliance reporting—not financial or other stakeholder reporting. The survey findings point to this: 63% of respondents indicated they are required to report GHG emissions to a Canadian government (federal, provincial/territorial or municipal).



However, when asked how their organizations report on GHG emissions to other external stakeholders, it appears that GHG emissions data is used in both mandatory and voluntary reporting:

- 29% of respondents include this information in voluntary reports, such as sustainability or corporate social responsibility reports, and CDP survey responses.
- 29% of respondents include this information in mandatory reports, such as securities filings or regulatory compliance reporting.
- 17% of respondents include this information in both voluntary and mandatory reports.



5. CFO Responsibility for GHG Reporting and Management

The majority of respondents (71%) indicated the CFO does not have primary responsibility for GHG emissions reporting and management:

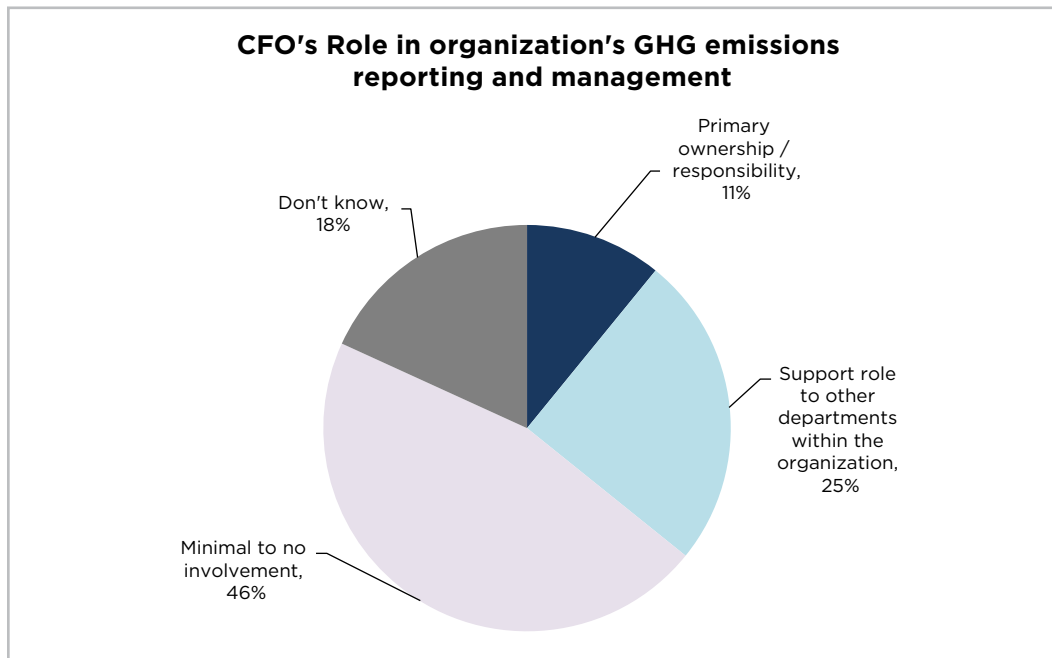
- 25% of respondents indicated the CFO has a support role to other departments.
- 46% of respondents indicated the CFO has minimal to no involvement.

Only 11% of respondents reported their CFOs have primary ownership of their organization's GHG reporting and management. In addition, almost half of respondents (48%) said their organization does not consider risks related to GHG emissions reporting and management.

Roundtable participants identified a leadership opportunity for senior finance leaders to engage in GHG emissions reporting and management activities.

“So little attention is being paid to the topic even though the competitive advantage is real. Cost of capital is impacted, employee retention is impacted and yet the cost to act is minimal. There is a real opportunity. Why are we waiting for the board to tell us to review and report. We should step in as leaders instead of being forced to do something.”

Timm Kukler – CFO, Nexterra Systems Corp.



Participants noted that CFOs are uniquely positioned to demonstrate the value in reducing GHG emissions on the bottom line. Examples of key benefits to reducing GHG emissions discussed by roundtable participants includes cost savings associated with energy conservation and efficiency, fuel efficiency gained from systems that optimize fuel consumption, increased ability to attract top talent, and enhanced reputation.

“CFOs should be taking a leadership role in GHG emissions reduction. We should be pointing out how much money can be saved and made by going green. Green is good for our health and the bottom line.”

Bob MacBean – CFO of Environmental Waste International Inc.

“Customers are pushing us quite hard to use natural gas as opposed to diesel which produces less GHG emissions. The State of California is looking at battery-operated tractors. There’s a lot of technology changing here to get us in that space of lowering greenhouse gases. Our focus this year is to lower our fuel consumption. We use the phrase lowering greenhouse gas emissions pays. It really does pay.”

Scott Calver—Vice President and CFO, Trimac Transportation Ltd

“When Alberta transitioned to the carbon tax, our board was very interested. Once we did the calculations and realized the carbon tax would not have a significant impact relative to other items we were dealing with, it became less of an issue in the near term.”

Allan Mowbray—Vice President Finance and CFO, Essential Energy Services Ltd.

“We track fuel consumption for a number of reasons: it saves the company money and we are also trying to reduce our customers’ costs to stay competitive. The lower our fuel consumption, the better it is for us, our customers and the environment. It’s a high priority.”

Dennis Koren—CFO, Canada Cartage

The Path Forward

It is clear that Canadian businesses need to pay attention to the business issues associated with climate change. Part of this requires understanding the applicability of federal, provincial and territorial requirements related to GHG emissions.

The federal government has legislated that every province and territory must have a price on carbon by the end of 2018. For those that don't establish their own system, the federal backstop will be imposed in 2019.

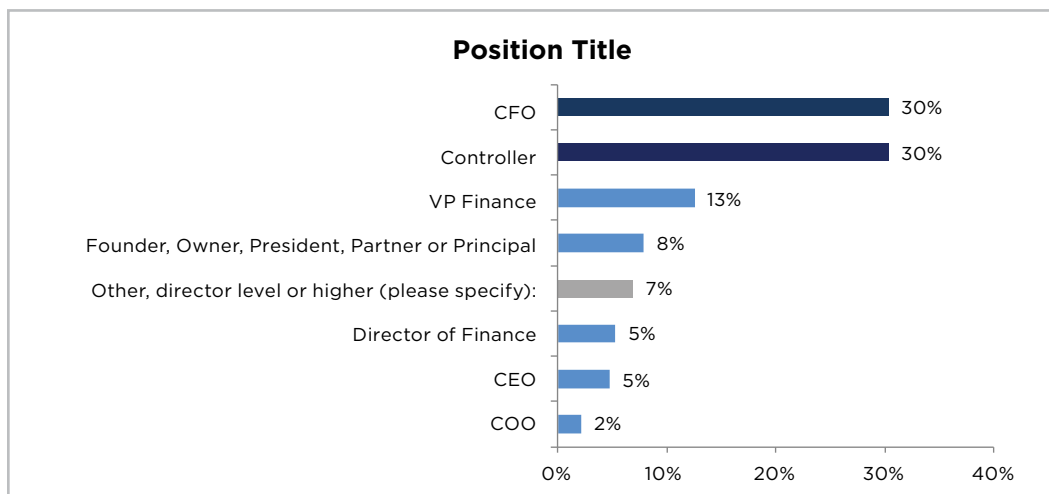
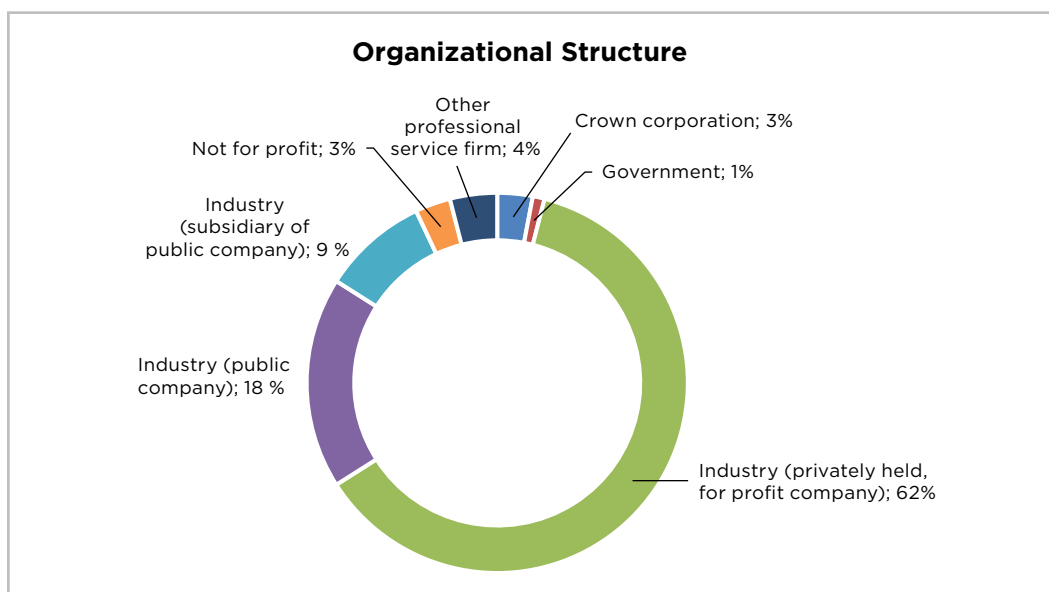
In conjunction, there are increasing GHG emissions reporting requirements to governments. It is important therefore that companies determine whether existing GHG emissions reporting regulations apply to their facilities by completing a baseline GHG emissions inventory. This is especially critical for small and medium-sized enterprises, which comprised the majority of respondents in this study.

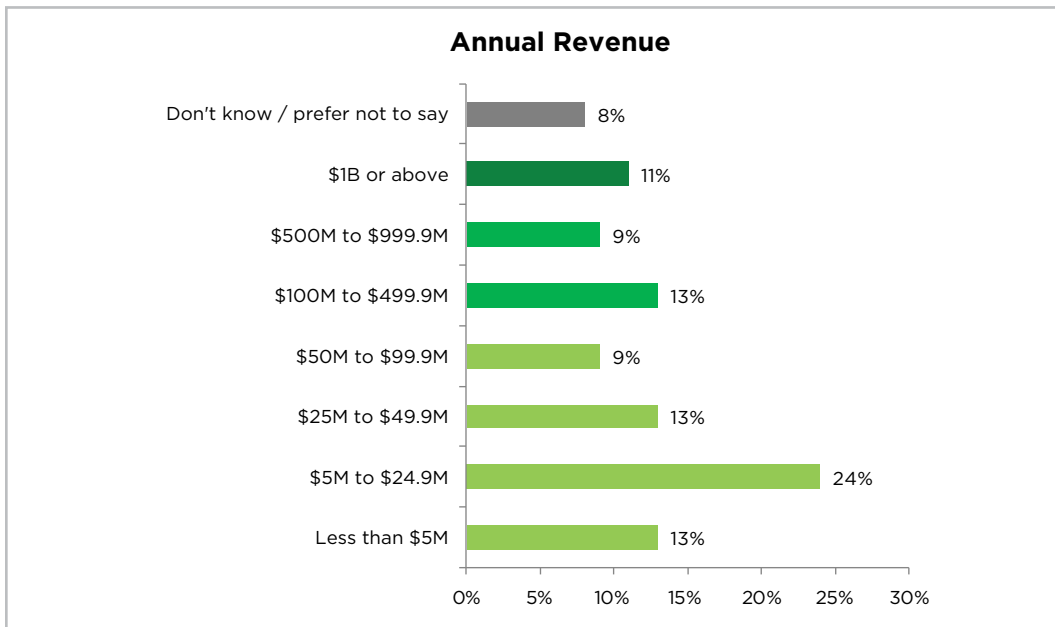
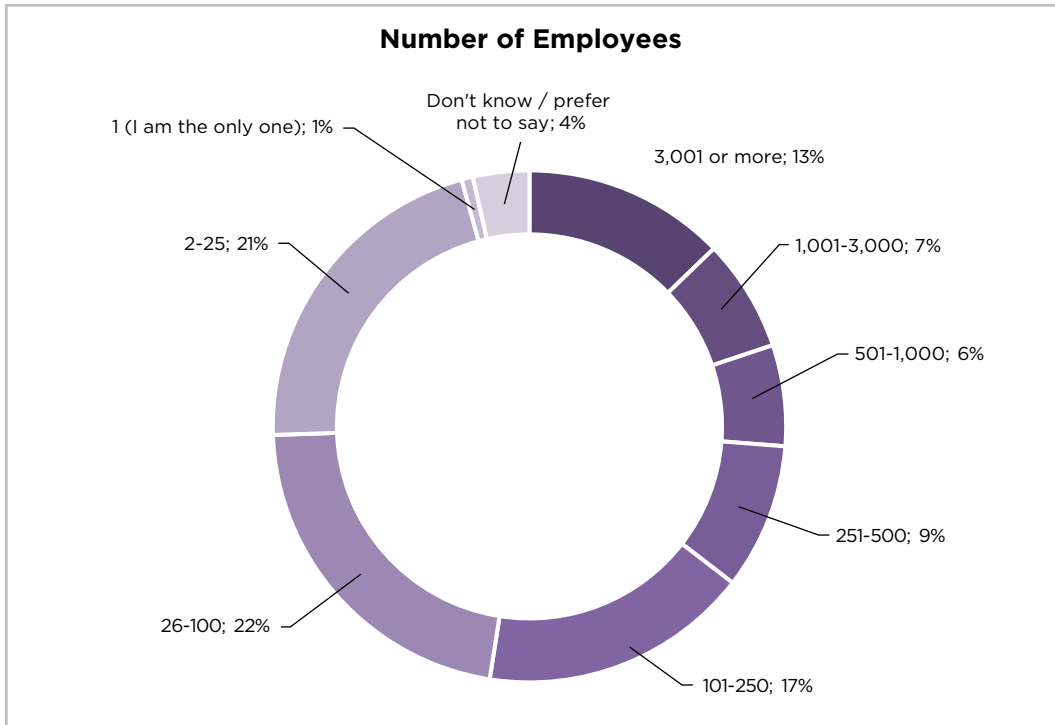
There is an opportunity for CPAs to leverage existing skills and competencies to become involved with their organizations GHG emissions measurement, management and reporting activities. CPAs can support by establishing appropriate systems, processes and internal controls over GHG emissions data and information. In addition, CPAs have an opportunity to consider the impacts of climate change and associated regulation on risk management, strategy and operations, including conducting a materiality assessment.

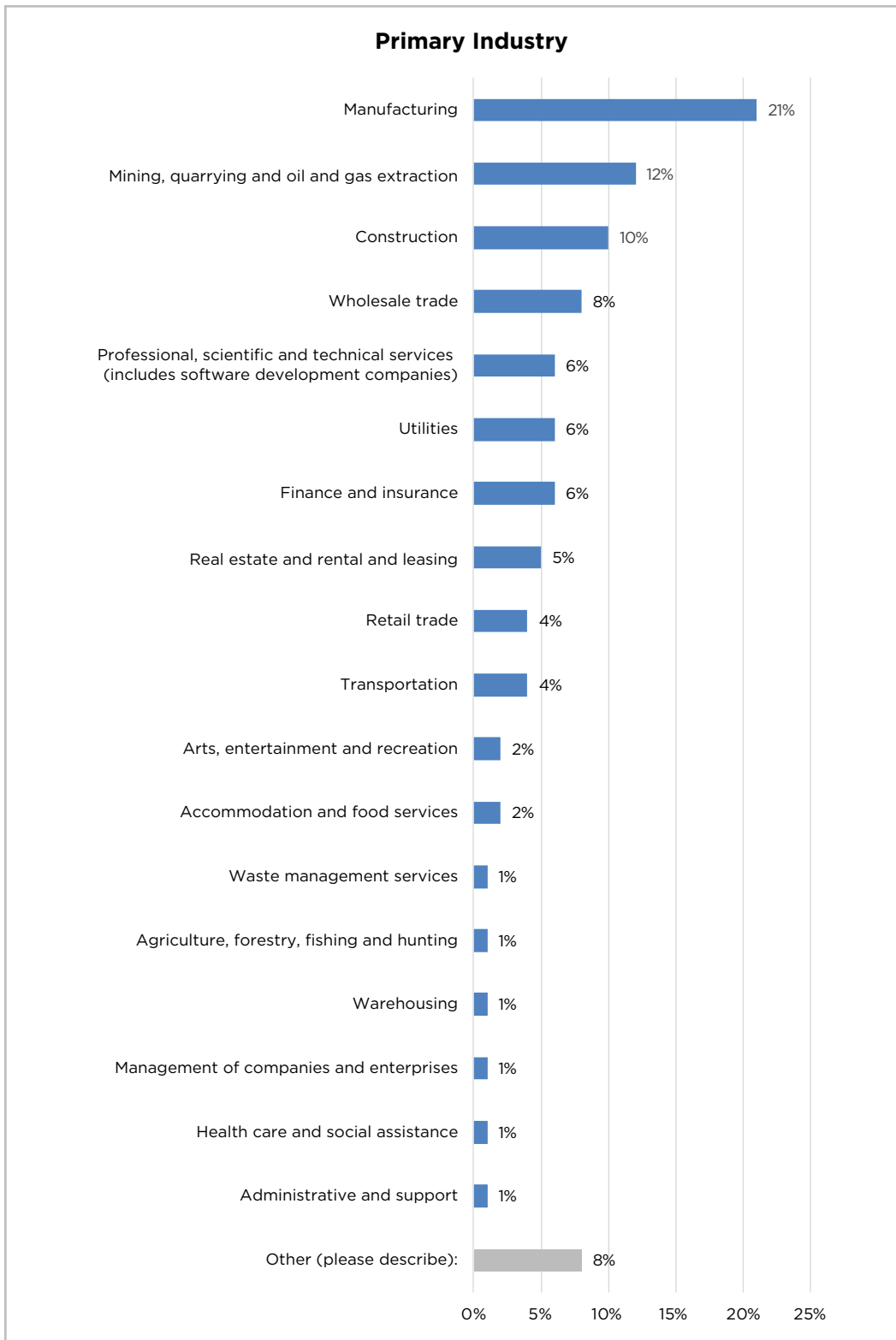
“The federal government is focused on an innovation agenda and the creation of superclusters to facilitate the creation of new technologies and businesses, particularly in the area of clean tech. The carbon tax will be channeled into these new technologies. We have a real opportunity to both move forward on mitigating the impact of climate change and creating new, innovative businesses.”

William (Bill) Ross — Business Executive, Vercerta Inc.

Appendix A — Demographics







Appendix B – Research Forum Participants and Observers

Forum Chair Tim Zahavich, Chair, [Canadian Financial Executives Research Foundation \(CFERF\)](#) (TOR)

Moderators Laura Pacheco – VP, Research, [FEI Canada](#) (TOR)
Sarah Keyes – Principal, Research, Guidance and Support, [CPA Canada](#) (TOR)

Participants

Vancouver Eduard Epshtein – CFO, [Lithium Americas Corp.](#)
Frank Hunaus – Chief Financial Officer, [Ebco Metal Finishing LP](#)
Timm Kukler – Chief Financial Officer, [Nexterra Systems Corp.](#)
Debasish (Dave) Sanyal – Chief Financial Officer, [Agrocorp International Inc.](#)
Paul Tai – Chief Financial Officer, [Creative Energy Vancouver Platforms Inc.](#)

Calgary Brad Botsford – Regional Controller, [Hood Packaging Corporation](#)
Scott Calver – Vice President & Chief Financial Officer, [Trimac Transportation Limited](#)
Danny Chiarastella – Chief Financial Officer, [Divestco Inc.](#)
Allan Mowbray – Vice President Finance & Chief Financial Officer, [Essential Energy Services Ltd.](#)
Catherine Pressacco – Controller, [Enerjet](#)
Kirsten Richter – Director, KM Richter Advisory Services Inc.

Toronto Gil Darnley—Independent Consultant, CPA, CMA, PMP
Robert J. Dietrich—Chief Financial Officer, [S.A. Armstrong Limited \(Armstrong Fluid Technology\)](#)
Dennis Koren—Chief Financial Officer, [Canada Cartage](#)
Bob MacBean—Chief Financial Officer, [Environmental Waste International Inc.](#)
Mohini Matadeen—Finance Director—IFM, [Sodexo Canada](#)
Mary Meffe—Chief Financial Officer, [Ontario College of Trades](#)
William (Bill) Ross—Business Executive, [Vercerta Inc.](#)

Observers

Vancouver David Chiang, VP Member Services, [CPA BC](#)

Calgary Larry Brownoff, Director, Professional & Career Services, [CPA Alberta](#)

Toronto Gord Beal, Vice President, Research, Guidance and Support, [CPA Canada](#)
Pete Pigott, President & CEO, [FEI Canada](#)
Tammy Gilmer—Research and Communications Manager, [FEI Canada](#)
Mary Teresa Bitti, Writer, [FEI Canada](#)

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Chartered Professional Accountants of Canada (CPA Canada) is one of the largest national accounting organizations in the world, representing more than 210,000 members. Domestically, CPA Canada works cooperatively with the regional CPA bodies who are charged with regulating the profession. Globally, it works together with the International Federation of Accountants and the Global Accounting Alliance to build a stronger accounting profession worldwide. CPA Canada, created through the unification of three legacy accounting designations, is a respected voice in the business, government, education and non-profit sectors and champions sustainable economic growth and social development. The unified organization is celebrating five years of serving the profession, advocating for the public interest and supporting the setting of accounting, auditing and assurance standards. CPA Canada develops leading-edge thought leadership, research, guidance and educational programs to ensure its members are equipped to drive success and shape the future.

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FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 1,500 members, FEI Canada provides its members thought leadership, advocacy services and extensive professional development opportunities—including its executive education offering, the CFO Leadership Beyond Finance program. The association membership, which consists of chief financial officers, audit committee directors and senior executives in the finance, controller, treasury and taxation functions, represents a significant number of Canada's leading and most influential corporations. Further information can be found at

www.feicanada.org. Follow us on Twitter at @FEICanada.

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CFERF is the non-profit research institute of FEI Canada. The foundation's mandate is to advance the profession and practices of financial management through research and education. CFERF undertakes objective research projects relevant to the needs of Canada's senior financial executives in working toward the advancement of corporate efficiency in Canada. For more information, please visit www.feicanada.org.





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