

## Executive Summary

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Since 1990, Canada has been relying on industrial firms to voluntarily reduce their greenhouse gas (GHG) emissions to help slow climate change.

Opponents of making emission cuts mandatory claim Canadian industry has been taking significant action to deal with emissions on its own and will continue to do so, with no legal requirements<sup>1</sup> or national target or timeline. *The Case for Kyoto: The Failure of Voluntary Corporate Action* documents an entirely different reality.

The report analyzed the credibility and track record of Canada's flagship program to address industrial GHG emissions. It found that the voluntary approach to cutting Canada's industrial emissions has been wholly inadequate.

The report concludes that Canada needs the legally binding framework of the Kyoto Protocol if it is to begin reversing the emissions increases seen since 1990. Unilateral, voluntary approaches have simply failed and are thoroughly discredited by the results presented in this report.

Because Canada's largest emitters of GHGs are industrial firms, accounting for 52 to 63 per cent of Canada's GHG emissions in 2000, our success in addressing climate change depends first and foremost on what happens to the emissions of industrial firms.

The report examined the credibility of Canada's major industrial GHG emitters who are asking Canadians to trust them to act voluntarily, and in their own good time, to reduce emissions. For the past seven years, Canada's central program to address industrial GHG emissions has been the Voluntary Challenge and Registry Inc. (VCR), which encourages private and public sector organizations to limit their GHG emissions on a voluntary basis. The Pembina Institute examined all the submissions to VCR made by industrial entities up to March 31, 2002 in order to identify those reporting their emissions for 2000. The main findings are these:

- Most industrial firms reporting their GHG emissions to VCR have seen those emissions increase significantly since 1990, a trend still underway at the end of the decade. A higher proportion of the largest emitters have seen significant percentage increases in emissions since 1990 than firms reporting to VCR as a whole. Many emissions increases are occurring because of shifts to more GHG-intensive activities—the opposite of what one would expect from firms making meaningful efforts to address climate change. (Section 2.1.)

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<sup>1</sup> The “Canadian Coalition for Responsible Environmental Solutions,” representing most of Canada's largest emitters of GHGs, wants governments to abandon the Kyoto Protocol and “negotiate agreements with specific economic sectors on emissions performance targets mutually agreed upon by all stakeholders.” While in theory, “mutually agreed upon” targets could be part of a strong regulatory system, this is clearly not what the coalition has in mind.

- Two-thirds of the largest emitters are either planning, or seem very likely to be anticipating, keeping their emissions substantially or far above 1990 levels. The ease with which voluntary commitments can be altered or abandoned suggests that the “Kyoto-level” or better future emissions targets that some firms have adopted should be viewed with caution. (Section 2.2.)
- The level of participation in the VCR, impressive at first sight, turns out on closer inspection to be mediocre. Out of 493 industrial entities registered with VCR in mid-2002, only 102 actually reported their year 2000 emissions by March 31, 2002. Entities reporting to VCR account for less than 55 per cent of emissions from industrial facilities in Canada. Fifty-two industrial entities designated as gold, silver or bronze “champion-level” reporters on the VCR web site failed to report their year 2000 emissions to VCR. (Section 2.3.)
- There are a large number of major inconsistencies in the methodology used by firms in calculating the emissions they report, and data reported to VCR are rarely subject to verification by independent professional auditors. This makes it difficult to compare the performance of different firms or to have confidence in instances of progress that are reported. The use of emissions offsets present particular problems; some claimed offsets are quite misleading and amount to little more than accounting tricks. (Section 2.4.)

Some Canadian industrial firms have been quite successful in limiting GHG emissions in the voluntary context of the VCR. But their contribution has been outgunned by the more numerous companies who remain “free riders.” There is no reason to believe that this would change if the voluntary approach continued. In particular, the major emissions increases projected by several of the largest emitters severely compromise Canada’s efforts to reduce its GHG emissions.

In rejecting the legally binding Kyoto Protocol, industry associations representing most of Canada’s largest GHG emitters are proposing to continue the voluntary approach not only at the domestic level, but also at the international level, with no legal obligations to the international community. It is instructive to look at what happened last time Canada took on a target to limit emissions that was voluntary at the international level. In 1992, Canada signed an agreement to stabilize emissions at the 1990 level by 2000. Instead of mandating reductions, the government requested voluntary compliance by industry. The result has been a 24 per cent *increase* in total industrial emissions above the 1990 level.

The failure of Canada’s voluntary approach to reducing emissions underlines the need to implement a mandatory GHG emissions reduction approach immediately. For the industrial sector, including energy utilities, there are many solutions, proven in other countries, including a domestic emissions trading system that caps total industrial emissions, expansion of cogeneration, and expanded energy efficiency and low-impact renewable energy standards and incentives. These measures are a logical outcome of Kyoto ratification but will not emerge on the scale needed if Canada continues to rely on voluntary actions.