



CANADIAN
MANUFACTURERS
& EXPORTERS

CME Low-Carbon Transition
Survey

Canada

June 2022



PARTNER MESSAGE



CME surveys are an important tool to gain a pulse on the industry. This survey focuses on the evolving global challenges of sustainable supply chains and the increasing pressure to design and adopt low-carbon emission transition strategies. As the past couple years of accelerated change has shown us, consumers, regulators and investors are increasingly focused on organizations' environmental impact. Executive teams have increasingly urgent incentives to implement processes to demonstrate environmental, social and governance (ESG) performance metrics and how they are safeguarding their business success in the long-term.

The transition to a low-carbon economy is taking shape and has brought forth both risks and opportunities for organizational leaders. Commitments to 'net-zero' – which refer to an entity's ability to emit no more greenhouse gas emissions than those which are removed or stored – are becoming commonplace. The survey demonstrates that while more than 78% of organizations are aware of regulatory net-zero requirements by 2050, only 24% of organizations have set a low-carbon transition goal. Bringing together an organization's commitments, targets, and initiatives into a cohesive strategy can assist in identifying strategic gaps and challenges for organizations.

Shifting towards the low-carbon economy will not happen overnight and the

2050 deadline looms, requiring initiatives to begin today. Stakeholder concerns, regulatory requirements, and the higher costs of doing business are all genuine obstacles as the world emerges from the COVID-19 pandemic. To build greater consensus within an organization and manage these concerns, the dialogue must often shift from perceiving emissions reduction as a cost, to planning emissions reduction as a critical value-add investment.

To help overcome challenges, BDO has seen increased requests for services related to sustainability, ESG, and climate-related services. BDO is also seeing more manufacturers start reviewing holistic supply chain and value business resilience, and third-party risk management especially as organizations look at capturing Scope 1, 2 and 3 direct and indirect carbon emissions.

BDO recognizes the important work CME does on behalf of members and the industry, advocating for Canadian manufacturers with all levels of government. BDO is pleased to support CME and looks forward to continuing our collaboration in 2022 and beyond.

INTRODUCTION

Canadian manufacturers are committed to creating a clean and healthy environment for all. For decades, CME and our members have worked with governments to improve and create common standards through effective environmental regulations and supportive programs.

The current focus of environmental action is the goal to achieve net-zero emissions by 2050. The global manufacturing sector is leading this race through the aggressive adoption of technology and the creation of innovative new products aimed at meeting rising consumer demand for more sustainable goods.

Canada and its manufacturers must become world leaders in this race. Many global industry leaders have pledged to be carbon neutral by 2050, and this means that they will increasingly demand that their supply chain partners, including those in Canada, implement comprehensive net zero strategies too. In addition, over time, consumers, governments, employees, financial institutions, and other key stakeholders will demand more stringent action.

While many of Canada's top industrial companies have made commitments to be net zero by 2050 and are already taking aggressive action, previous CME surveys indicate that many small and medium-sized manufacturers are still taking a wait and see approach. Clearly, one of the biggest obstacles to getting started is related to cost. Transitioning to a low-carbon economy will be incredibly expensive for manufacturers, as it will require billions of dollars of investment and result in higher operating costs, both having negative implications for their competitiveness. Accordingly, substantial government support will be needed to help manufacturers move forward.

Against this backdrop, CME surveyed its members on their level of preparedness to transition to a low-carbon economy, the strategies they are implementing or planning to implement to meet climate targets, and the extent to which government enabling measures are helping or hindering these actions.

SURVEY OBJECTIVES

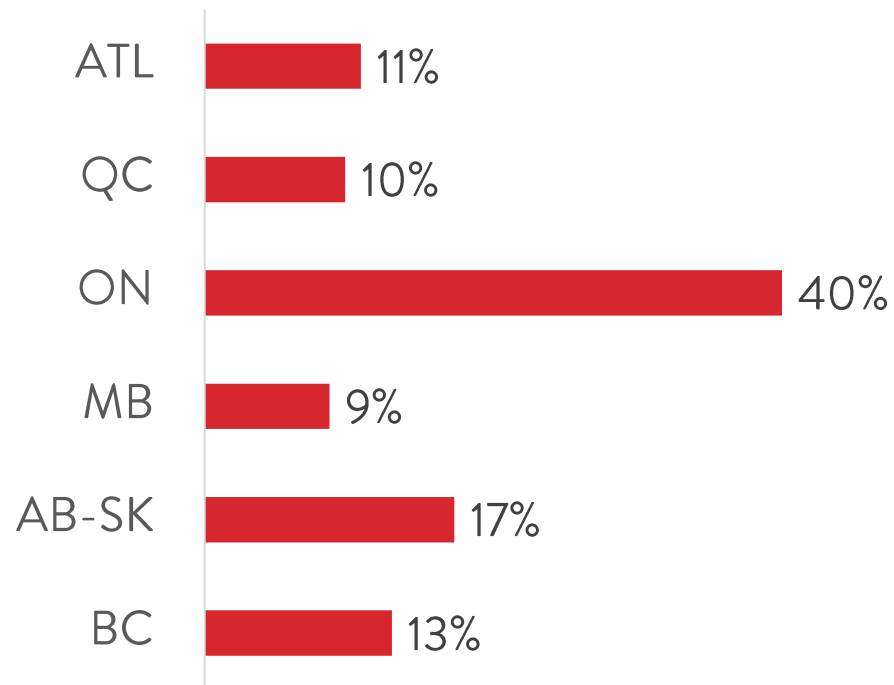
The survey has three main objectives:

1. To gain a deeper understanding of manufacturers' corporate strategies to reduce their carbon footprint
2. To find out the extent to which government supports are helping the industry meet their targets and remain competitive
3. To inform our engagement strategy with governments as they implement policies designed to achieve net-zero emissions by 2050

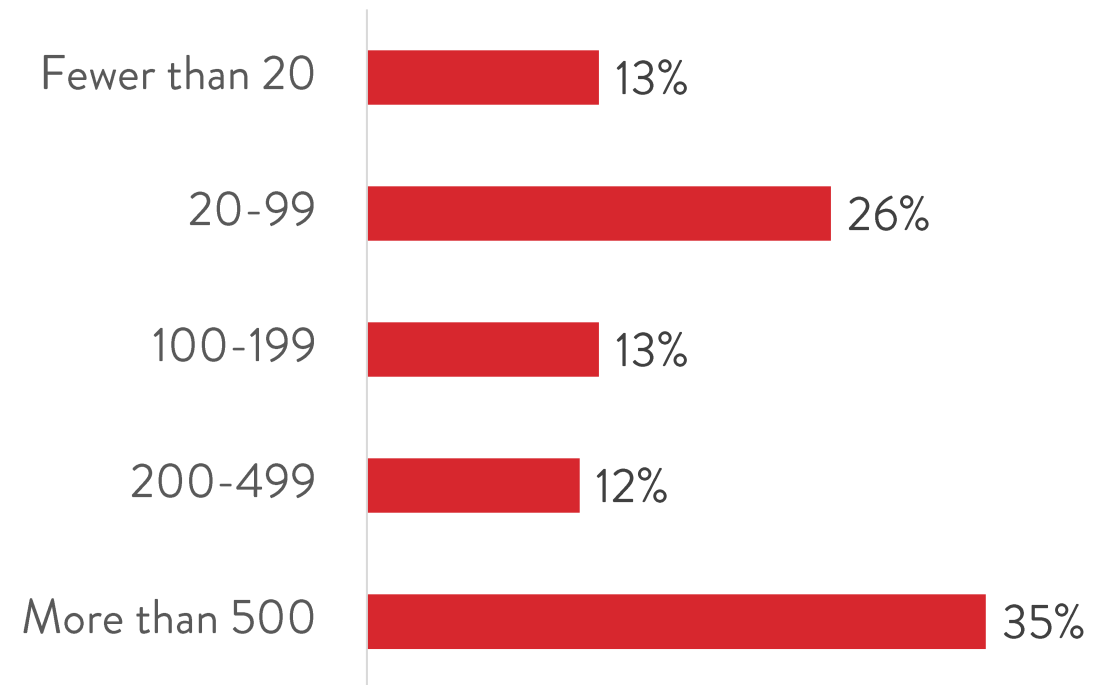
RESPONDENT PROFILE

We surveyed 96 manufacturers with a diverse range of business sizes from across the country:

Regional Distribution

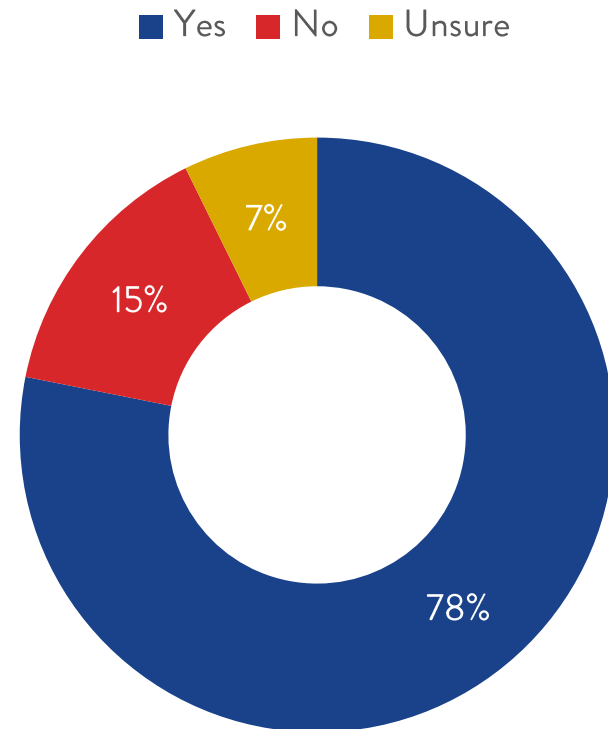


Firm Size Distribution (no. of employees)



ARE YOU AWARE THAT THE FEDERAL GOVERNMENT HAS COMMITTED TO REACHING NET ZERO GHG EMISSIONS, INCLUDING THOSE GENERATED IN THE INDUSTRIAL SECTOR, BY 2050?

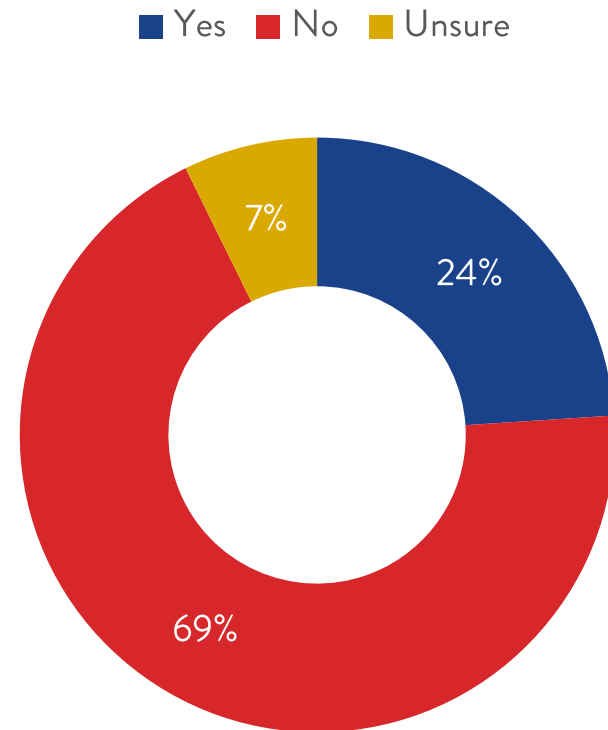
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Close to eight-in-ten Canadian manufacturers said they are aware that the federal government has set a target to reach net-zero emissions across the economy, including in the industrial sector, by 2050.

HAS YOUR COMPANY SET A TARGET TO REACH NET ZERO GHG EMISSIONS BY 2050 OR EARLIER?

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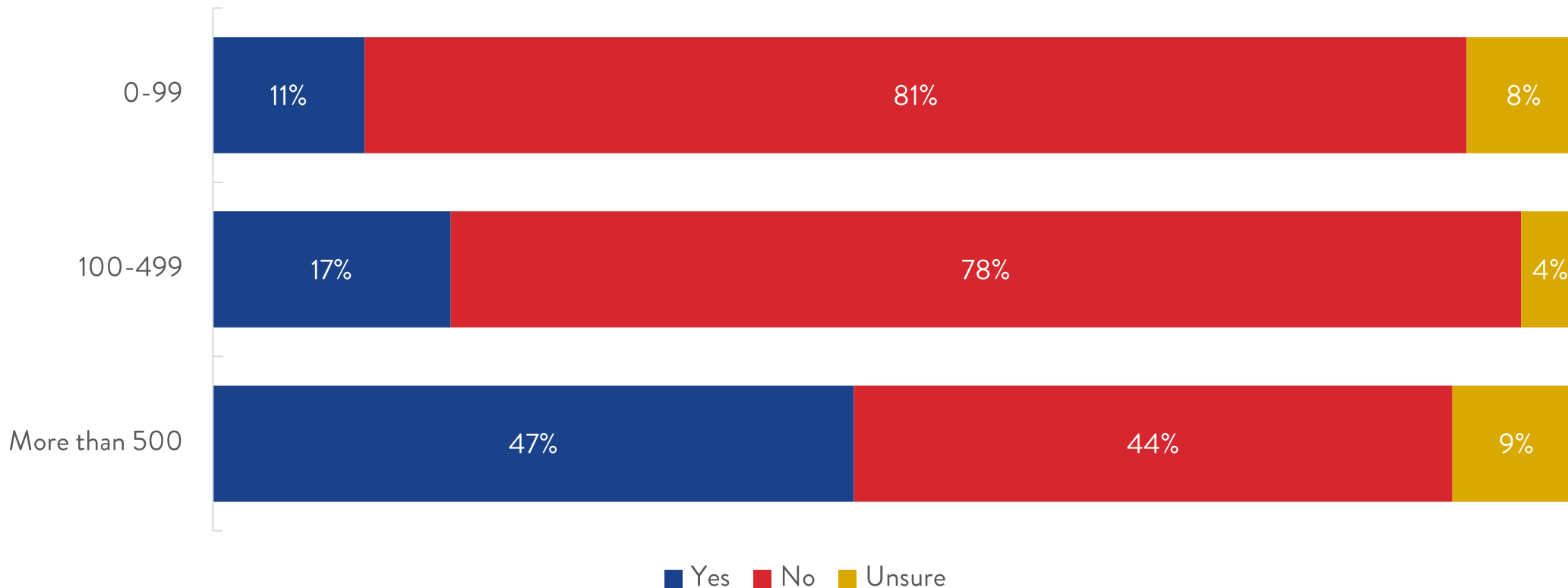


One-quarter of manufacturers surveyed have established targets to reach net-zero emissions by 2050 or earlier, 70% have not done so, and the remaining 7% are unsure about their company's sustainability policies.

HAS YOUR COMPANY SET A TARGET TO REACH NET ZERO GHG EMISSIONS BY 2050 OR EARLIER?

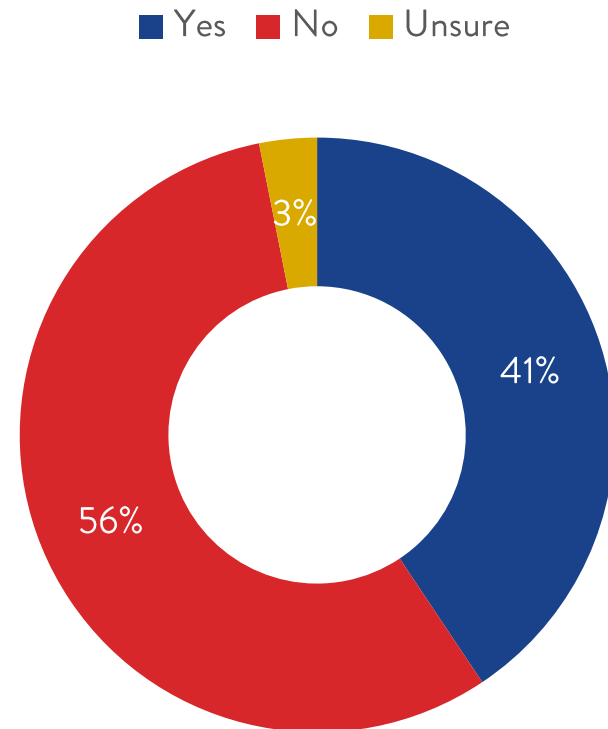
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While nearly half of manufacturers with 500 or more employees have set a target to be carbon neutral by 2050, just a little over one-in-ten small manufacturers have done the same. These results are consistent with those from CME's 2020 Management Issues Survey.



DOES YOUR COMPANY CURRENTLY TRACK ITS CARBON EMISSIONS?

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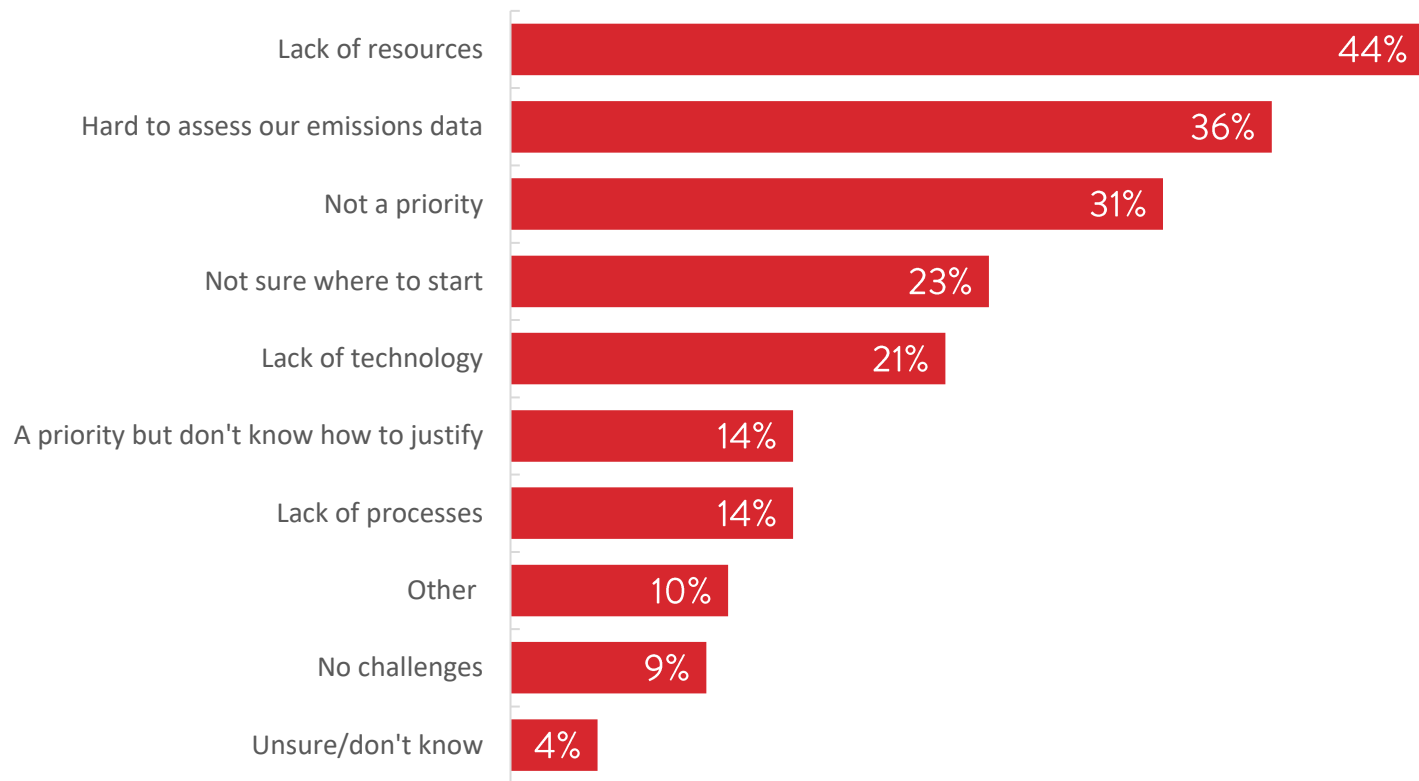


Measuring and analyzing emissions is a prerequisite to reducing GHG emissions.

According to our survey, 41% of Canadian manufacturers are currently tracking their carbon emissions, while 56% have yet to do so.

WHICH OF THE FOLLOWING CHALLENGES ARE YOU EXPERIENCING WITH YOUR NET-ZERO TARGET-SETTING AND CARBON ACCOUNTING OBJECTIVES?

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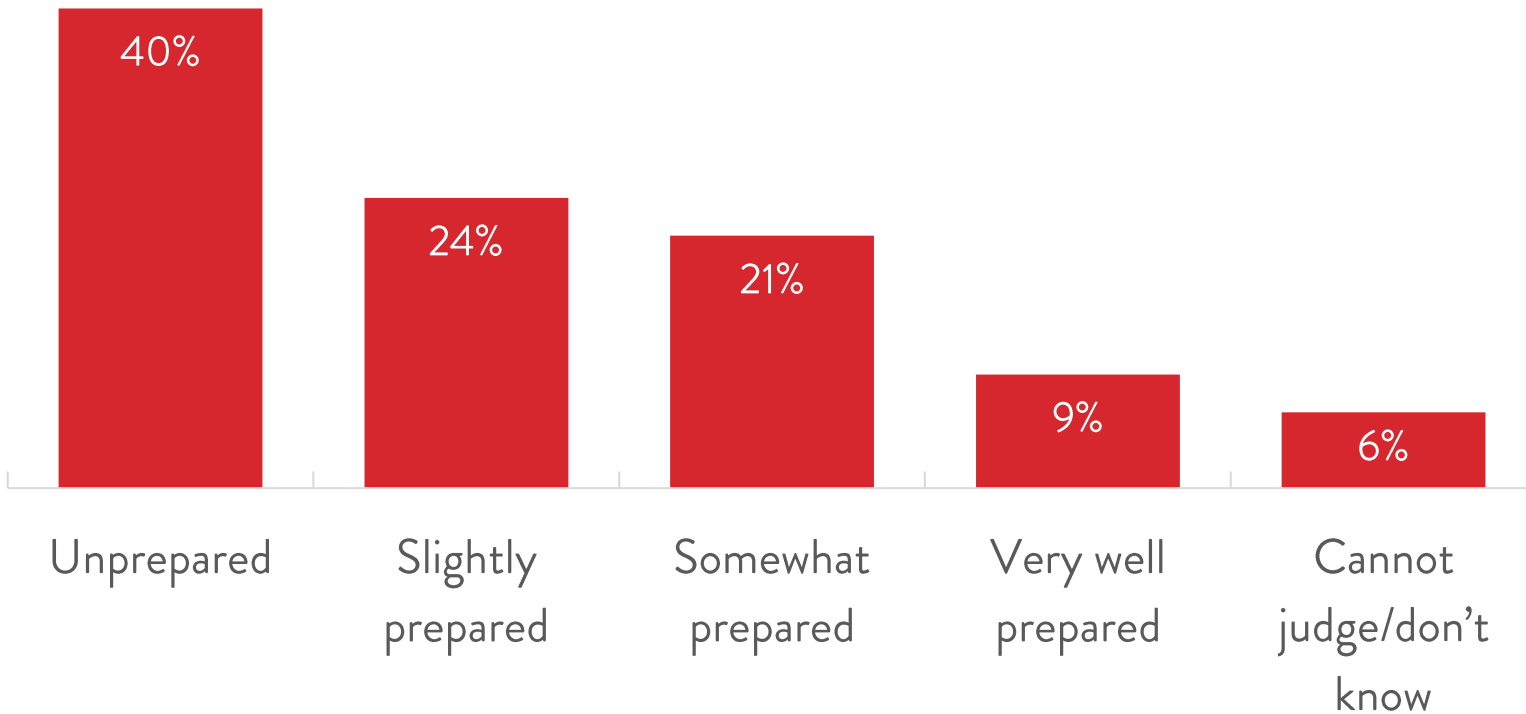
When asked to rate the biggest obstacles to setting a net-zero target, 44% of survey participants selected a lack of resources, 36% said it was hard to assess their emissions data, while 31% said setting a target wasn't a priority.

Less than 10% of firms indicated that they didn't face any hurdles with net-zero target-setting.

Source: CME - Low-Carbon Transition Survey.

HOW PREPARED DO YOU THINK YOUR COMPANY IS TO MEET A 2050 NET-ZERO GHG EMISSIONS TARGET?

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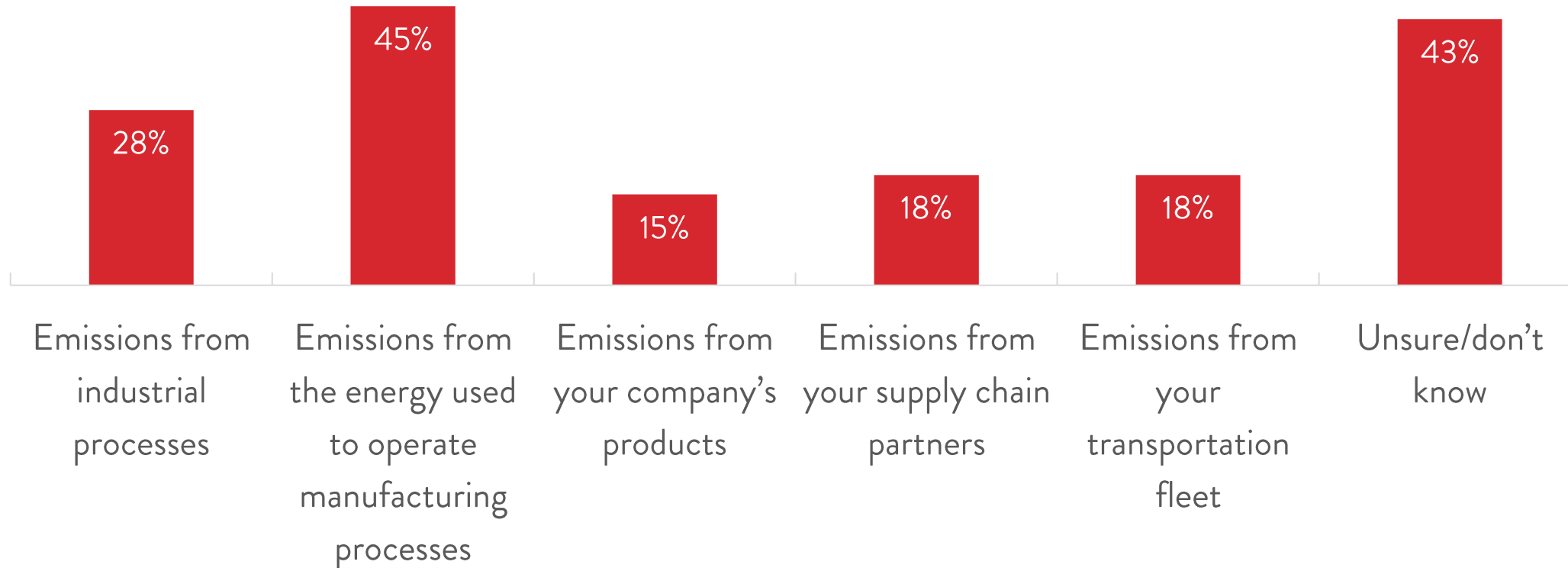
When asked to judge their company's level of preparedness to achieve carbon neutrality by 2050, 40% said they were unprepared, a significantly higher share than the 9% that said they were very well prepared.

Continuing a theme from other questions, large firms were much more likely to say that they were prepared than SMEs.

WHAT HAS BEEN OR WILL BE THE PRIMARY AREAS OF FOCUS IN YOUR EMISSION REDUCTION EFFORTS OVER THE NEXT THREE YEARS?

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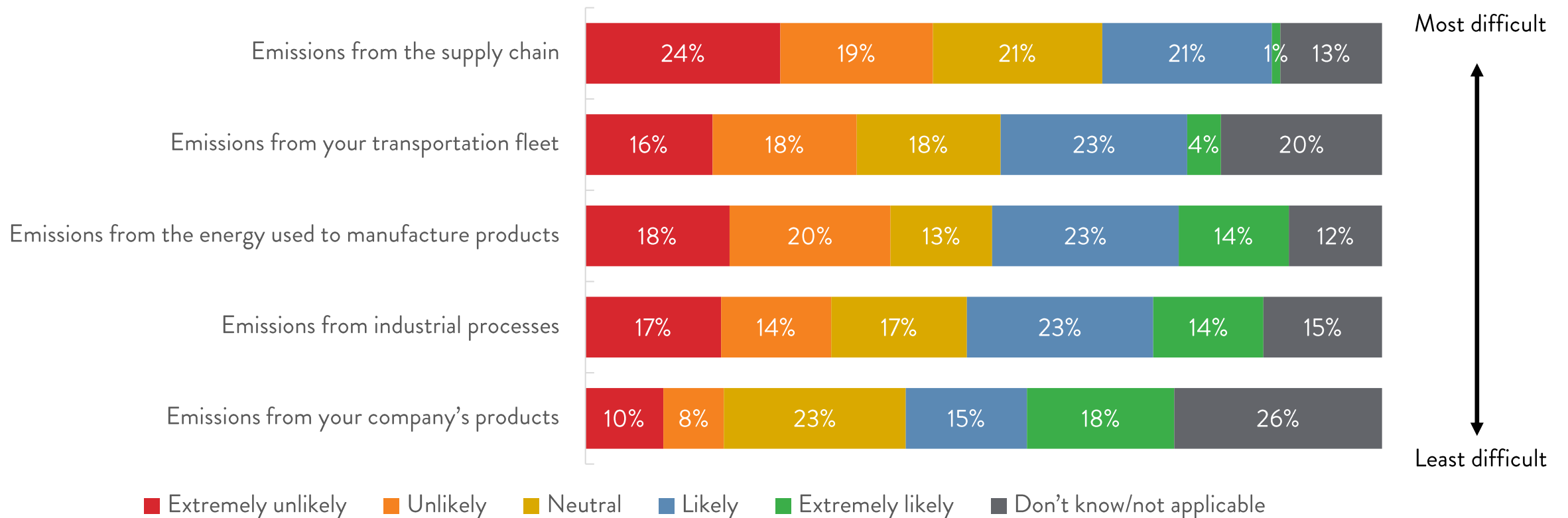
Considering all the main sources of emissions, survey participants plan to focus first on cutting emissions from those generated by the energy used to manufacture products (45%) and those generated by industrial processes (28%). A notable share of manufacturers (43%) are also unsure about or don't know what emission sources their company will focus on over the near term.



WHAT IS THE LIKELIHOOD THAT YOUR COMPANY WILL BE ABLE TO ELIMINATE EMISSIONS IN THE FOLLOWING AREAS BY 2050?

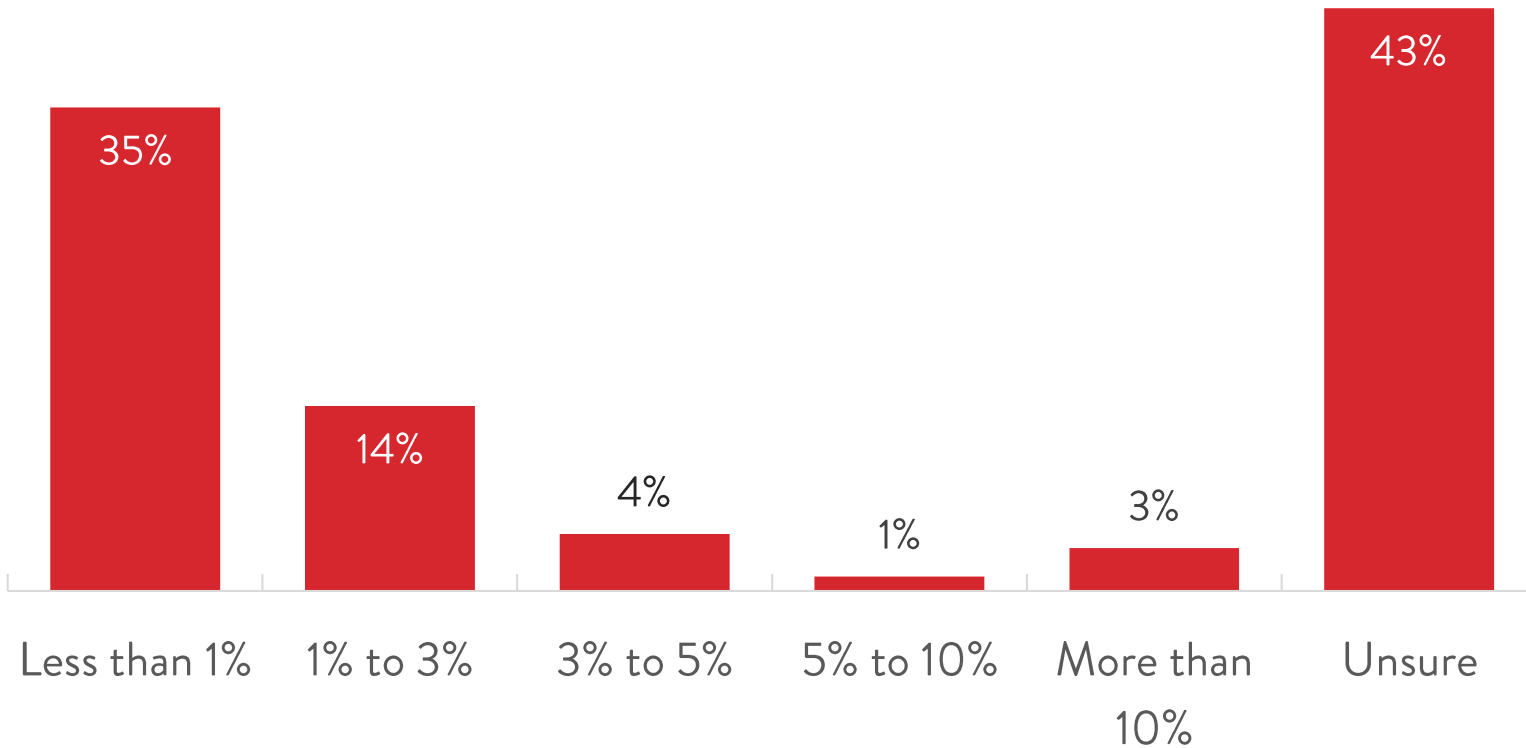
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Looking over the longer term, respondents said that eliminating supply chain emissions by 2050 will be the most difficult to achieve, while eliminating emissions from their company's products will be the least difficult.



OVER THE NEXT THREE YEARS, HOW MUCH DOES YOUR COMPANY PLAN TO SPEND ON EMISSION REDUCTION INVESTMENTS AS A PERCENTAGE OF YOUR SALES REVENUE?

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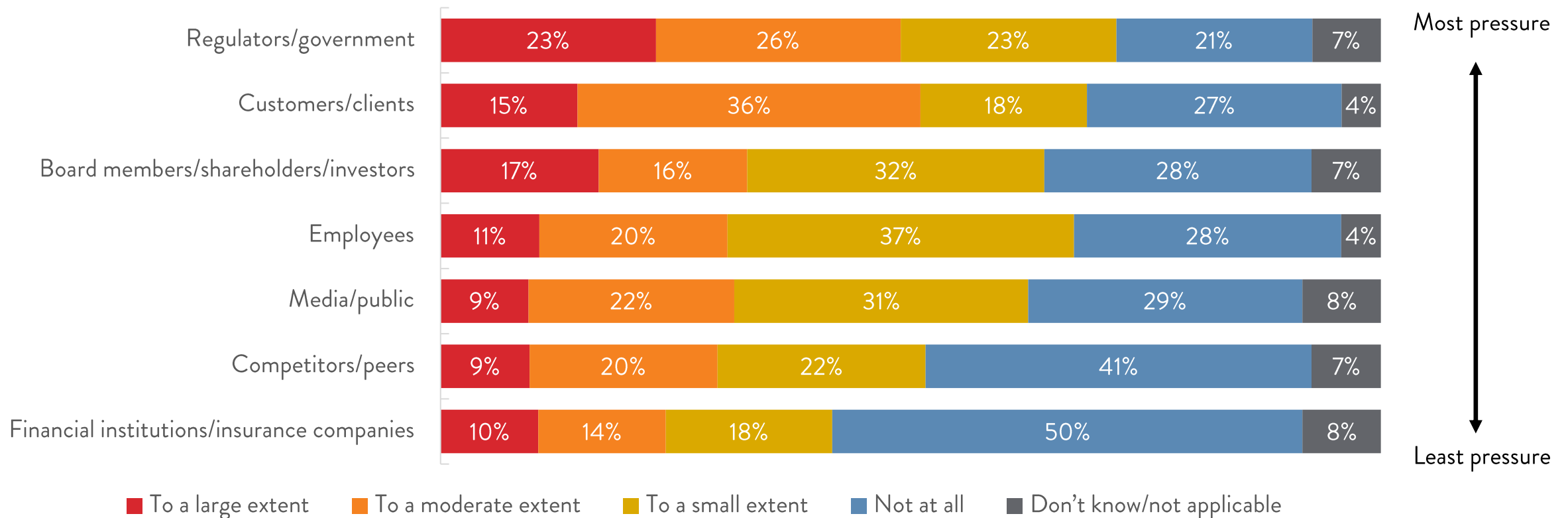
When asked how much their company plans to spend on emission reduction investments over the next three years, most either plan on spending less than 1% of sales revenue (35%) or are unsure (43%).

Less than 10% of respondents plan on spending 3% or more of their sales revenue on such investments over the near term.

TO WHAT EXTENT DOES YOUR COMPANY FEEL PRESSURE TO ACT ON CLIMATE CHANGE FROM YOUR STAKEHOLDERS?

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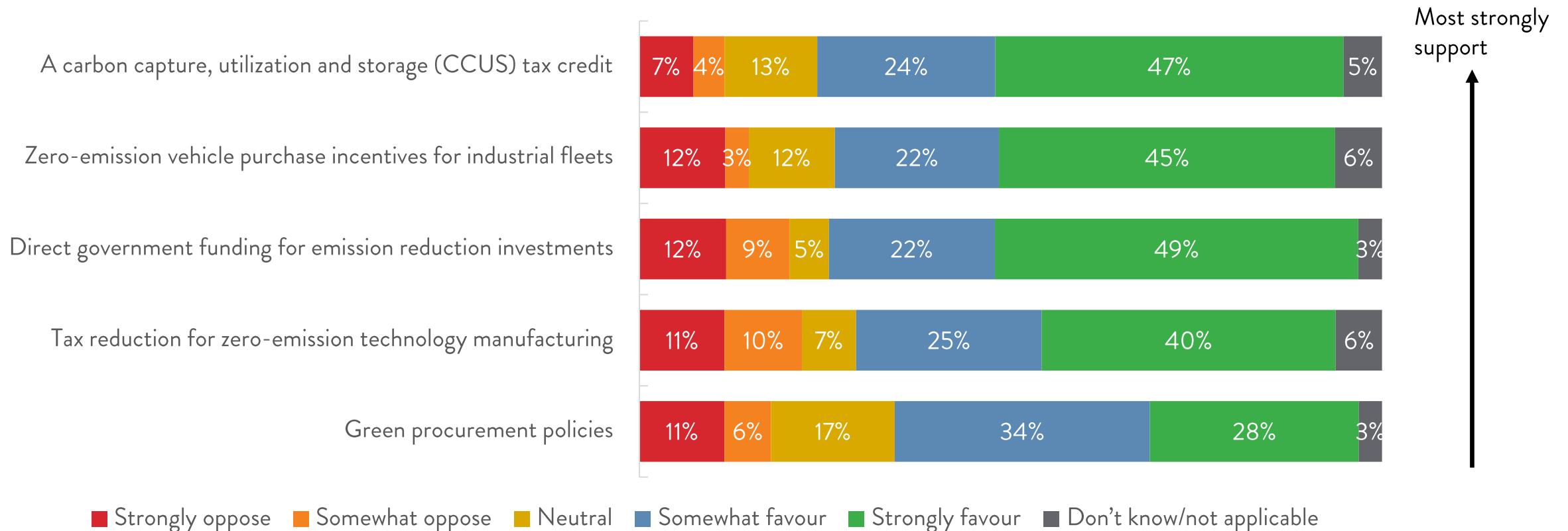
When considering the industry's various stakeholders, manufacturers feel the most pressure to act on climate change from governments and feel the least amount of pressure from financial institutions.



WHAT IS YOUR LEVEL OF OPPOSITION OR SUPPORT FOR CURRENT, ANNOUNCED AND POTENTIAL GOVERNMENT POLICIES DESIGNED TO ACHIEVE NET ZERO EMISSIONS BY 2050?

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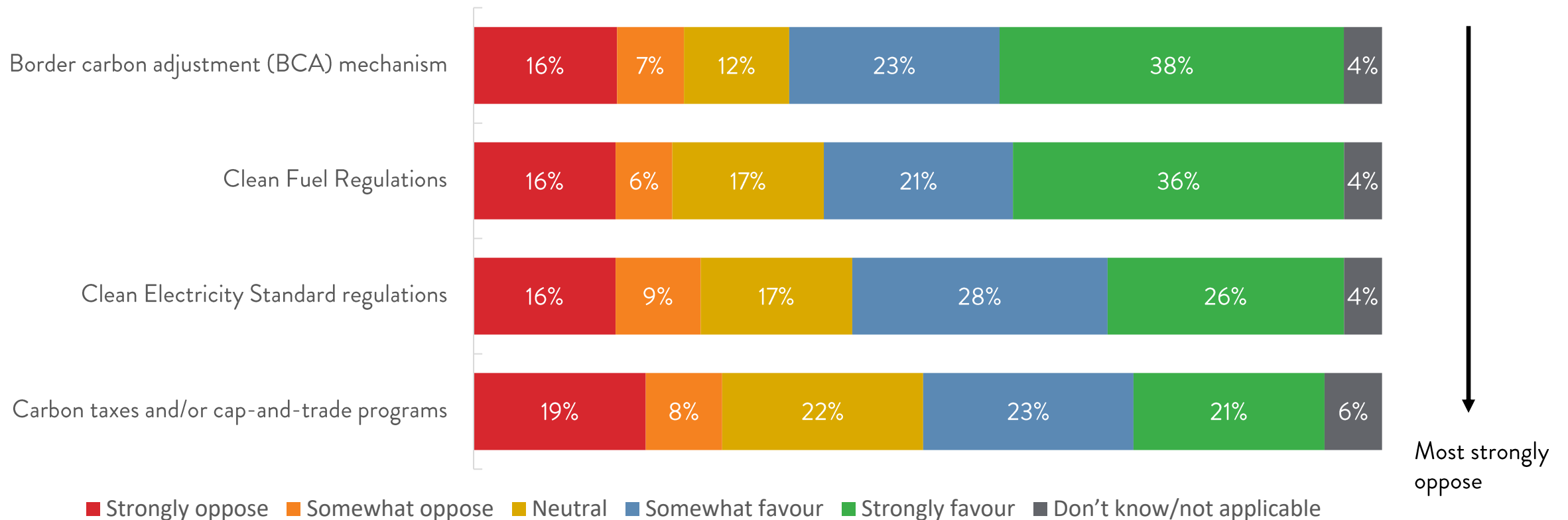
Considering all the current, future and potential federal government climate change actions, survey respondents most strongly support a CCUS investment tax credit, ZEV vehicle purchase incentives for industrial fleets, and direct government funding for emission reduction investments.



WHAT IS YOUR LEVEL OF OPPOSITION OR SUPPORT FOR CURRENT, ANNOUNCED AND POTENTIAL GOVERNMENT POLICIES DESIGNED TO ACHIEVE NET ZERO EMISSIONS BY 2050?

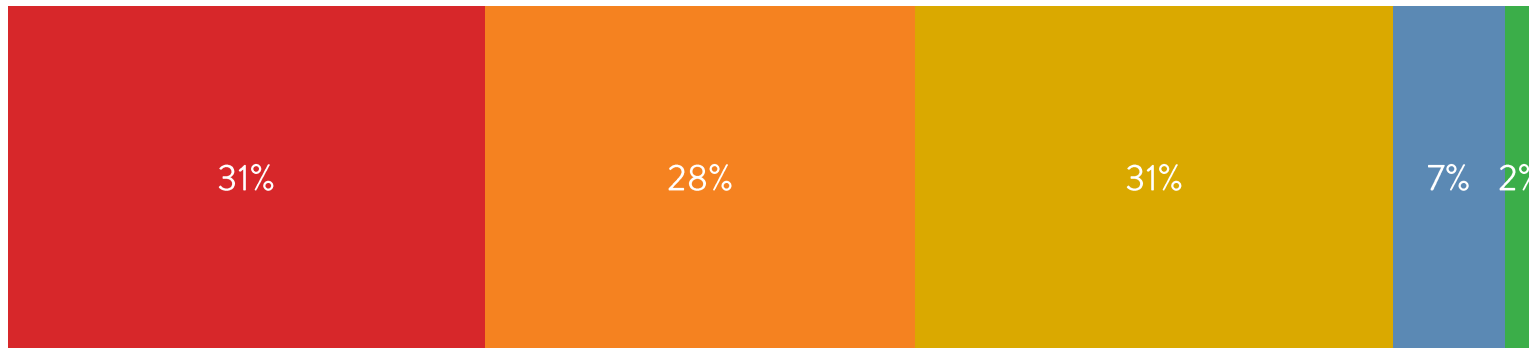
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At the other end of the spectrum, manufacturers most strongly oppose carbon taxes and/or cap-and-trade programs.



PLEASE INDICATE YOUR LEVEL OF AGREEMENT WITH THE FOLLOWING STATEMENT: GOVERNMENTS ARE DOING ENOUGH TO HELP MY COMPANY TRANSITION TO A NET ZERO ECONOMY AND REMAIN COMPETITIVE.

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■ Strongly disagree ■ Disagree ■ Undecided/Don't know ■ Agree ■ Strongly agree

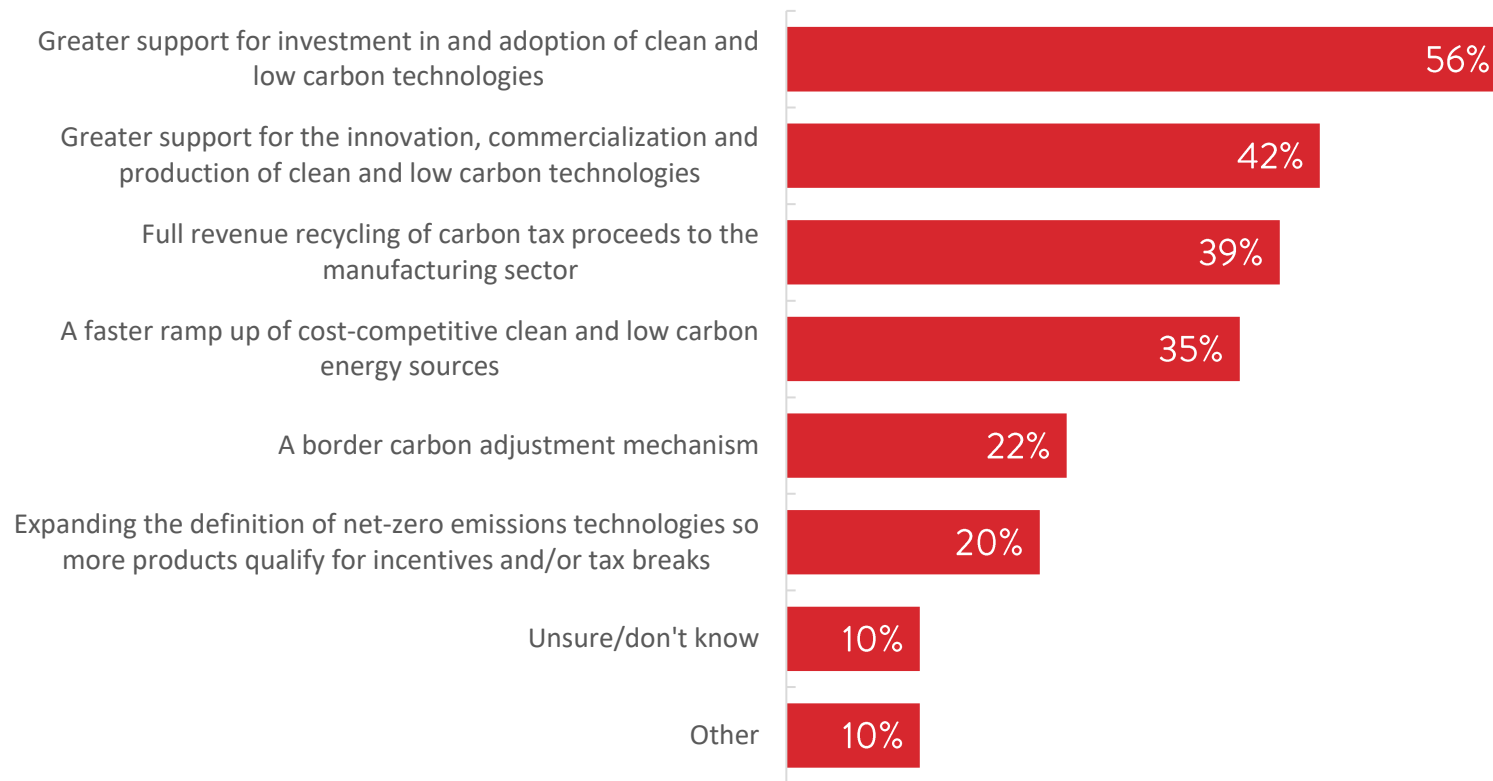


According to our survey, almost 60% of manufacturers disagreed or strongly disagreed with the statement that governments were doing enough to help their company transition to a net-zero economy and remain competitive.

In comparison, less than 10% of respondents agreed or strongly agreed with this statement.

WHAT ADDITIONAL GOVERNMENT MEASURES WOULD BE MOST EFFECTIVE IN HELPING YOUR COMPANY REDUCE ITS CARBON FOOTPRINT AND REMAIN COMPETITIVE?

Canada



Source: CME - Low-Carbon Transition Survey.



What additional actions should governments take to help the manufacturing sector transition to a low-carbon economy?

According to survey participants, they should provide more generous incentives to help manufacturers invest in and adopt clean and low-carbon technologies and they should provide more support to spur innovation, commercialization, and production of these same products.

SUMMARY

- Only one-quarter of manufacturers have established targets to reach net-zero emissions by 2050 or earlier, with smaller firms much less likely to have set targets than larger ones
- A little over 40% of respondents said their company is currently tracking their carbon emissions
- When asked to rate the biggest obstacles to setting a net-zero target, 44% of manufacturers cited a lack of resources, 36% said it was hard to assess their emissions data, and 31% said setting a target wasn't a priority
- When considering all current, future and potential federal government climate change actions, survey respondents most strongly support a CCUS investment tax credit, ZEV vehicle purchase incentives for industrial fleets, and direct government funding for emission reduction investments, while they most strongly oppose carbon taxes and/or cap-and-trade programs
- Most manufacturers believe that governments are not doing enough to help the industry transition to a net-zero economy and remain competitive
- According to survey participants, governments should be providing more generous incentives to help manufacturers invest in and adopt clean and low-carbon technologies and they should provide more support to spur innovation, commercialization, and production of these same products

NEXT STEPS

Using the results of the survey and our net-zero white paper, CME will continue to work with the federal government to implement a Net Zero Industrial Strategy that includes all of the following elements:

1. Direct investment supports for emitters of all sizes to help them adopt emissions-reduction technologies, ensuring that support approaches are technology-agnostic
2. Financial support for the creation, commercialization, and manufacturing of low- and no-carbon products in Canada through tax incentives and government procurement
3. An effective and targeted SME net-zero transition strategy, with a specific focus on education and global supply chain competitiveness
4. Support for effective energy solutions that recognize the necessity of existing supply and the urgent need to add new supply, including policies that foster the development of new technologies that contribute to the decarbonization of the energy system
5. Support for the creation and expansion of corporate carbon offset programs
6. Transition strategies that are aligned and coordinated between Canada and our key trading partners to maintain our competitiveness and to avoid carbon leakage
7. Climate policies that are aligned and coordinated between the federal and provincial governments

THANK YOU TO OUR PARTNERS





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