GREEN BUDGET COALITION

Opportunities for True Sustainability: Preserving our Environment, Strengthening our Economy, Reducing the Deficit

Submission to

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for pre-budget consultations

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Bird Studies Canada
Canadian Environmental Law Association
Canadian Parks and Wilderness Society
Centre for Integral Economics
David Suzuki Foundation
Ducks Unlimited Canada
Ecojustice Canada
Équiterre
Friends of the Earth
Greenpeace Canada
International Institute for Sustainable Development
MiningWatch Canada
Nature Canada
Nature Conservancy of Canada
Pembina Institute
Pollution Probe
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Executive Summary:

Canada's environment is central to Canadians' prosperity. Encompassing clean air and water for our day-to-day health, natural resources that power our economy and hundreds of thousands of jobs, and unique wild spaces and species, a healthy environment is critical to ensuring healthy and prosperous lives for all Canadians. **Preserving the federal government's existing capacity for environmental science, policy and programs is crucial for maintaining this prosperity.** The oil leak in the Gulf of Mexico in 2010 highlighted the extensive economic and environmental costs that can occur when environmental protection is sacrificed for short-term financial savings.

The **Green Budget Coalition (GBC)**, active since 1999, brings together twenty of Canada's leading environmental and conservation organizations to assist the federal government in developing and adopting the strategic budgetary and fiscal measures critical for achieving long-term environmental and economic sustainability.

The Green Budget Coalition has publicly welcomed the Government of Canada's progress over recent years on conservation, energy efficiency, fresh water, and subsidy reform**. For Budget 2012, we present recommendations to build on this progress, including opportunities to save over $1.3 billion annually.**

<u>**Feature Recommendations for Budget 2012:**</u>

1) **Further reduce the over $1.3 billion in existing federal fossil fuel subsidies,** to honour Canada's commitment to the G20, to build on actions in Budget 2011, and to advance the transition to a clean energy economy. Aligning the deductible rates offered to the oil and gas sectors, under the Canadian Exploration Expense and Canadian Development Expense, with normal capital depreciation rates *could alone <u>save</u> over $600 million per year.*

2) **Accelerate the transition to a low-carbon economy by introducing a price on carbon, and investing in energy efficiency** through a National Green Homes Strategy and a green bonds program, **and in renewable energy solutions**, focusing on remote and northern communities. (*Carbon pricing revenues could cover the $1.82 billion program costs.*)

3) **Renew the government's commitment to effectively implementing Canada's Species At Risk program by continuing its $25 million annual investment,** initially made in the 2007 budget, to enable a renewed approach focused on collaborative action on the ground and on the water, that will reduce risks to both our wildlife and our economy.

4) **Invest in Canada's freshwater resources to upgrade First Nations water and wastewater systems, to ensure safe reliable water supplies** through effective monitoring of water quality and quantity**, and to secure the health of regional ecosystems,** including the Great Lakes – St. Lawrence, the Northwest Territories, and Lake Winnipeg**. $685 million/year for 5 years.**

<u>*Crucial Complementary Measure:*</u>

- **Implement environmental pricing reform** to ensure that market prices for goods and services accurately reflect their full costs and benefits to the environment and human health.

Detailed GBC recommendations on these and other measures will be sent by September 2011.

Opportunities for True Sustainability

Overview

The Government of Canada has made welcome progress on conservation, fresh water, energy efficiency and subsidy reform in recent years.

Budget 2012 is a prime opportunity to take strategic actions to build on this success and – at the same time – to reduce the federal deficit, thereby creating further enduring economic and environmental benefits for Canadians. **To do so, Budget 2012 <u>must first ensure</u> that the federal government's core capacity for environmental science, policy and programs, and thus its ability to protect the environment, nature, and Canadians' health from pollution, is maintained**. The oil leak in the Gulf of Mexico in 2010 highlighted the extensive economic and environmental costs that can occur when short-term corners are cut on environmental protection.

The Green Budget Coalition's feature recommendations for Budget 2012 – offering savings over $1.3 billion annually – are:

1) **Fossil Fuel Subsidy Reform: Options to Increase Revenues and Advance a Clean Energy Economy**
2) **Accelerating the Transition to a Low-Carbon Economy – with Carbon Pricing, Energy Efficiency and Renewable Energy**
3) **Species at Risk: Focus on Action**
4) **Investing in Water for Healthy Communities, Economies, and Environments**

The Green Budget Coalition also recommends actions on the following important issues:

1) Ending Subsidies to Nuclear Energy
2) Transportation: Investing in Public Transit
3) Global Climate Finance: Providing Canada's Fair Share for Developing Countries
4) Extending Ecogift Tax Incentives to Inventory Lands
5) Improving Natural Capital Indicators

Detailed Feature Recommendations

1) Fossil Fuel Subsidy Reform: Options to Increase Revenues and Advance a Clean Energy Economy

The identification and removal of subsidies for the production and consumption of fossil fuels – coal, oil and natural gas – is an important and necessary component of the transition to a clean energy economy and to addressing the global challenge of climate change. The burning of fossil fuels is responsible for approximately 80% of anthropogenic greenhouse gas emissions worldwide, with subsidies to coal, oil and natural gas encouraging greater consumption and production of dirty energy while discouraging investment in cleaner energy sources. Furthermore, during a time of fiscal constraint, subsidies to fossil fuels represent an added strain on public finances and an inefficient use of taxpayer dollars. In recognition of these adverse impacts, in 2009 Canada and its G20 counterparts agreed to "phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption," a commitment that has been reaffirmed at subsequent G20 meetings.

Canada provides **over $1.38 billion in annual subsidies**[i] to the fossil fuel industries, which include oil, natural gas and coal. The Green Budget Coalition commended the Government's actions in *Budgets 2007* and *2011* to reduce subsidies to the oil sands,[ii] measures estimated to increase federal revenues by approximately $15 million in 2011-12 and $30 million in 2012-13.[iii]

The GBC encourages the Government to take advantage of the opportunity in *Budget 2012* to reap further savings in fossil fuel subsidy reform, while advancing the country's stated intention of being a 'clean energy superpower,' giving particular attention to the following tax preferences for the oil and natural gas sector, each identified by Finance Canada as subsidies for potential reform:[iv]

1. <u>Canadian Exploration Expense</u>. **Over $200 million per year could be saved** by bringing this 100% deductible rate in line with normal capital depreciation rates.
2. <u>Canadian Development Expense</u>. **Over $400 million per year could be saved** by bringing this 100% deductible rate in line with normal capital depreciation rates.

2) Accelerating the Transition to a Low-Carbon Economy – with Carbon Pricing, Energy Efficiency & Renewable Energy

To accelerate Canada's transition to a low-carbon economy, the federal government must introduce a price on carbon and make new investments in renewable energy and efficiency – two solutions that will be key to Canada achieving its climate change commitments. In *Budget 2012,* the federal government should move immediately to:

1. <u>Implement a well-designed, transparent, and environmentally rigorous carbon pricing system.</u> A predictable carbon price is viewed as the most efficient and effective way to address emissions, while providing businesses with a stable market framework for making investment decisions. With Canadian industry sectors continuing to show their support for an effective and predictable price on carbon,[v] several Canadian provinces and peer countries like Australia are moving forward, emulating the European Union, and adopting carbon pricing policies.[vi] A well-designed cap-and-trade system or carbon tax can be a powerful incentive to encourage companies and households to pollute less and invest in cleaner choices, by simultaneously making clean energy choices more attractive and pollution more expensive. **Carbon pricing can also generate government revenue** that can be used to reduce personal income taxes as well as targeted investments to accelerate the shift away from fossil fuels and towards a clean energy economy.[vii]
2. <u>Build on energy efficiency successes in Canadian houses by launching a National Green Homes Strategy</u>. To align with ambitious initiatives in the U.S. and U.K., Canada needs a comprehensive strategy to have 100 per cent of existing housing stock retrofitted by 2030. Canada can begin by aiming for 15 per cent by 2015, and making strategic investments in residential efficiency, focusing on low-income households, and building on Budget 2011's $400M one-year funding. *Cost:* **$1.25 billion over 5 years**
3. <u>Attract broad private investment in low-carbon initiatives</u>. The creation of new green bond instruments would improve access to capital for low-carbon initiatives and play a key supporting role within a broader clean energy strategy. *Cost:* **$500 million over 5 years**
4. <u>Target long-term sustainable opportunities in remote and northern communities</u>. In this year's throne speech, we were encouraged to hear the government commit to promote the "deployment of clean energy in Aboriginal and northern communities." Federal investment in already proven clean energy technologies can improve energy security and reduce long-term energy costs in remote and northern communities, while helping to ensure long-term Arctic sovereignty. *Cost:* **$70 million over 5 years**

3) Species At Risk: Focus on Action

Canada's Species at Risk program combines a number of scientific, legislative, partnership, and stewardship tools to prevent wildlife species from becoming extinct and to help recover those that are at risk. Environment Canada, Parks Canada Agency and the Department of Fisheries and Oceans share responsibility for implementing the program. Approximately one quarter of these departments' current budgets for the program will run out in March 2012. Extending this $25 million per year of implementation funding for another five years will enable a renewed approach to Canada's species at risk program – one focussed on collaborative action on the ground and in the water. This will reduce risk to both our wildlife and our economy.

Canada's species at risk program has faced some important challenges through the early years of implementation of the Species at Risk Act (SARA) since 2003. After some difficult years, the departments have recently become much more efficient and effective at the recovery planning aspects of the program. However the most important work remains to be done: moving beyond recovery strategies to implementing action plans. All three departments will need renewed financial resources in order to further develop the core competencies and partnerships required to implement recovery action for species at risk. These include effective results-oriented collaboration with stakeholders, including private land owners, other levels of government, aboriginal organizations, the private sector, and nongovernment conservation organizations.

This funding will help protect Canada's international trade relationships by ensuring we meet minimum international standards and uphold Canada's commitments under the Convention on Biological Diversity. In addition, it will inform the Government's ongoing development of the National Conservation Plan to protect and recover species at risk sooner and therefore at much lower cost than delaying action.[viii]
Investment Required: $25 million per year for five years (2012-2017).

4) Investing in Water **for Healthy Communities, Economies and Environments**
Fresh water is Canada's greatest national treasure. Yet Canada's record on protecting freshwater resources and ecosystems lags well behind leading nations. The state of water systems on First Nations reserves is shameful, pollution in the Great Lakes and Lake Winnipeg threaten the aquatic ecosystem, human health and economic development, and climate change is increasing the frequency and severity of both flood and drought. Strategic investments are needed to improve the quality and reliability of the fresh water that flows through Canada's communities, economy and environment.
Priority areas for investment are:

1. <u>Healthy Communities – Water & Wastewater Systems:</u> To help cover the estimated $20 billion cost of upgrading water and wastewater systems,[ix] Canada should work towards establishing a sequel to the successful Building Canada Fund in 2014. Immediate attention, however, is required to address First Nations, Inuit and Métis water systems. A recent assessment commissioned by AAND found that 39% of First Nations drinking-water systems are at high risk of being unsafe, and concluded AAND would need to spend $6 billion on infrastructure upgrades and training over the next 10 years. An initial investment of **$600 million per year for five years** is needed to address upgrades, training, operations and maintenance, and research into novel systems for small, northern and remote communities.
2. <u>Healthy Economies – Ensuring reliable water systems:</u> Safe, reliable water supplies will be critical to the future of Canada's economy. All sectors depend on timely and reliable information on water quality and quantity, yet the Commissioner of the Environment and Sustainable Development recently reported that monitoring of water quality and quantity is "inadequate". Funding is required to improve collection and management of water data and to support long-term forecasting of future water availability and safety. **Invest $30 million per year for five years** to update and modernize Canada's water monitoring infrastructure and expertise.
3. <u>Healthy Environments – Regional Ecosystems:</u> Securing the health of Canada's diverse aquatic environments demands a strategic approach that focuses spending on priority areas for protection and restoration. Regional priorities include:
    a. Investing **$45 million per year for five years** in the **Great Lakes – St. Lawrence** (for the Great Lakes Water Quality Agreement, AOCs and ZIPs, environmental monitoring, invasive species and a climate change impact strategy) by continuing investment in the Canada-Ontario Agreement (Great Lakes) and the Canada Quebec Agreement (St. Lawrence Plan);
    b. Investing **$5 million per year for five years** to restore the health of **Lake Winnipeg;** and,
    c. Investing **$5 million per year for five years** to support implementation of the **Northwest Territories** Water Stewardship Strategy, which was jointly developed by the Government of NWT and AAND Canada (then INAC).

Subsidy Reform and Pricing Reform: Fundamental for a Sustainable Canadian Economy

A truly sustainable Canadian economy would improve the lives of Canadians and the health of our planet in an ongoing, integrated fashion. A sustainable economy would recognize that conserving and protecting natural systems is critical to our ongoing prosperity, and that the health of our economy is intrinsically linked to the health of our environment.

One of the fundamental requirements for making a successful and efficient transition to a sustainable economy is for governments' fiscal policies to support the achievement of Canada's sustainability objectives rather than detract from them. Two fiscal strategies are of particular importance:

1) **"Levelling the playing field" for natural resource exploration and development through ecological subsidy reform;**

Firstly, governments need to "level the playing field" for natural resource exploration and development so that the fiscal treatment of natural resource is equitable, or else that fiscal policies favour resources whose life-cycle and human health impacts are the most positive. This should include consideration of conservation and recycling options.

The first step in implementing such ecological subsidy reform is to remove any existing preferential treatment ("subsidies") for energy sources which are non-renewable or whose development or use is significantly environmentally-damaging. As noted above, the federal government made important progress in this area in *Budgets 2007 and 2011,* and could save over $600 million annually in *Budget 2012 by* bringing the deductible rates for oil and gas, under the Canadian Exploration Expense and the Canadian Development Expense, in line with normal capital depreciation rates.

and

2) Ensuring market prices "tell the environmental truth" through environmental pricing reform.

Market prices do not currently "tell the environmental truth." Indeed, as Sir Nicholas Stern has pointed out, "climate change is the greatest market failure the world has seen."[x]

Canada's economy will only maximize benefits for Canadians and be truly sustainable when market prices do tell the environmental truth by reflecting true values - today and in the future - as well as the life-cycle costs and benefits - financial, environmental, and social – of their production and consumption. This approach is often called ecological fiscal reform (EFR), and could be implemented through a mix of market-based instruments, such as taxes, fees, rebates, credits, tradable permits and subsidy removal.

The Green Budget Coalition has commended the Government of Canada's past budgets for taking important steps towards implementing ecological fiscal reform, and will highlight many opportunities in its upcoming document to build upon those measures. A prime opportunity for financial savings and environmental benefits is available by ending subsidies for fossil fuels, nuclear power, and primary mineral exploration, extraction and processing. A prime opportunity to help market prices "tell the environmental truth" is to implement a price on carbon emissions.

All of the above recommendations will be further detailed in the Green Budget Coalition's *Recommendations for Budget 2012*, to be released in fall 2011, with a preliminary version sent to all Committee members by September.

The GBC expects to continue promoting and refining these recommendations until they are adopted.

For further information, or to provide feedback or suggestions, please contact:

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[i] Sawyer, Dave and Seton Stiebert, 2010, Fossil Fuels: At What Cost? Government support for upstream oil activities in three Canadian provinces: Alberta, Saskatchewan and Newfoundland and Labrador. The Global Subsidies Initiative (GSI) of the International Institute for Sustainable Development, Geneva. November, 2010.

[ii] In particular, these include commitments to phase out the accelerated capital cost allowance for tangible capital assets, as well as by proposing to reduce the deduction rates for intangible capital expenses in oil sands projects to align with the conventional oil and gas sector.

[iii] http://actionplan.gc.ca/initiatives/eng/index.asp?mode=2&initiativeID=207

[iv] Memorandum from Michael Horgan to Minister of Finance, 18 March 2010, Subject: G-20 Commitment – Fossil Fuel Subsidies. http://pubs.pembina.org/reports/department-of-finance-subsidies-memo.pdf.

[v] See Canadian Council of Chief Executives, Kananaskis 2011: Building an Agenda for a Sound Energy Future, July 2011, http://www.ceocouncil.ca/publications/pdf/test_e7841c457a3ce73fd82318352ded68eb/Kananaskis_2011_Building_an_Agenda_for_a_Sound_Energy_Future_Final_July2011.pdf.

[vi] In Canada, both Quebec and B.C. have carbon taxes. The Western Climate Initiative, bringing together 11 U.S. states and Canadian provinces, will have a cap-and-trade system up and running by January 2013.

[vii] For the GBC's recommendations on how carbon-pricing revenues should be used, please consult the section on targeted revenue recycling in the *GBC's Recommendations for Budget 2011* (p.40-42), via http://www.greenbudget.ca/2011/main.html. For further details on the GBC's advice for carbon pricing, please consult the GBC's detailed recommendations on carbon pricing in the GBC's *Recommendations for Budget 2009* and *2008*, respectively, both available via http://www.greenbudget.ca/prop.html.

[viii] Drechsler, M., Eppink, F.V. & Wätzold, F. (2011). Does proactive biodiversity conservation save costs? *Biodiversity Conservation*. 20: 1045-1055.

[ix] A Federation of Canadian Municipalities (FCM) – McGill University survey estimated Canada's municipal infrastructure deficit related to meeting current standards for wastewater and stormwater systems to be approximately $19.9 billion. (FCM, November 2007, *Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure*. ISBN 978-1-897150-20-7, http://www.fcm.ca/english/View.asp?mp=601&x=622, p. 16. The municipal water supply deficit was also estimated at $11.1 billion, out of a total municipal infrastructure deficit of $123 billion.) In addition, the Canadian Council of Ministers of the Environment (CCME) estimates that it will cost $10 billion to $13 billion for a Canada-wide strategy to address the new sewage effluent standards. (CCME, February 1 2009, *Canada-wide Strategy for the Management of Municipal Wastewater Effluent*, http://www.ccme.ca/assets/pdf/cda_wide_strategy_mwwe_final_e.pdf, p. iii.)

[x] October 30 2006, Press note: *Publication of the Stern Review on the Economics of Climate change*, http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2006/press_stern_06.cfm.