



Preliminary Recommendations for Budget 2012

Featuring a revenue-generating package advancing:

1. Species At Risk,
2. Freshwater Resources,
3. Energy Efficiency, &
4. Fossil Fuel Subsidy Reform

September 2011

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
Sierra Club Canada
Social Investment Organization
Wildlife Habitat Canada
WWF-Canada

Executive Summary

The Minister of Finance, the Honourable Jim Flaherty, recently “emphasiz[ed] that the environment and the economy are inextricably linked, and that by ensuring that Canada has a clean and healthy environment we will be able to build an economy strong enough to maintain the enviable standard of living Canadians have come to expect.”¹

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, plus unique wild spaces and species, a healthy environment is critical to ensuring healthy and prosperous lives for all Canadians.

The Green Budget Coalition (GBC), active since 1999, **brings together twenty of Canada’s leading environmental and conservation organizations,** representing over 600,000 Canadians, to present an analysis of the most pressing issues regarding environmental sustainability in Canada and to make recommendations to the federal government regarding strategic fiscal and budgetary opportunities.

The Green Budget Coalition has publicly welcomed the Government of Canada’s progress on conservation, energy efficiency, fresh water, and subsidy reform over recent years. Much more is needed, and waiting to act will increase both the urgency and the costs of action.

Budget 2012 is a prime opportunity to take strategic actions to build on this progress 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 must first ensure the preservation of the federal government’s existing environmental capacity, including science, policy and programs, which is crucial for maintaining Canadians’ 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.

This document details preliminary versions of the GBC’s recommendations for Budget 2012. Feedback and suggestions are encouraged and appreciated.²

¹ Department of Finance Canada, 14 September 2011, “Government of Canada Promotes Economic Prosperity Through Support for Small Business”, <http://www.fin.gc.ca/n11/11-080-eng.asp>

² Please provide any suggestions to the respective recommendation’s lead author (listed at the end of each recommendation) and/or to GBC Manager Andrew Van Iterson, at avaniterson@naturecanada.ca, 613-562-8208 ext. 243. To ensure your suggestions can be considered for the final recommendations, please contact us by October 12, 2011.

The Green Budget Coalition’s feature recommendations for Budget 2012 – providing net savings over \$300 million annually – are:

- 1) Species at Risk: Extending Program Funding**
- 2) Canada’s Freshwater Resources: Investing for Healthy Communities, Economies, and Environments**
- 3) Energy Efficiency: Providing Energy Cost Relief for Canadians**
- 4) Fossil Fuel Subsidy Reform: Fulfilling Canada’s G20 Commitment**

At the same time, strong action on climate change continues to be needed. As Prime Minister Harper has asserted, “climate change is perhaps the biggest threat to confront the future of humanity today.”³ Waiting longer to act will create real costs for Canadians—in missed business opportunities, in increased financial and economic costs for future environmental protection, and in greater risks to our collective health and climate.⁴ Implementing a robust price on greenhouse gas (GHG) emissions⁵ is required for effective action to address climate change and to credibly pursue environmental sustainability for ourselves and future generations.

The Green Budget Coalition also recommends these complementary budget actions:

Subsidy and Pricing Reform – Fundamental for a Sustainable Canadian Economy

- 1) Carbon Pricing: Accelerating Progress Towards a Low-Carbon Economy
- 2) Financing Climate Action: Providing Canada’s Fair Share for Developing Countries
- 3) Nuclear Power: Protecting Taxpayers from Liabilities
- 4) Arctic Offshore Liability: Protecting Taxpayers
- 5) Mineral Sustainability: Shifting Incentives from Extraction to Recycling

Investing in Healthy Citizens, Communities and Environments

- 6) Sustainable Transportation: Improving Commutes and Air Quality
- 7) Protecting Consumers from Toxic Substances: Investing in Consumer Product Safety Act
- 8) Oceans: Improving Health and Economy through Integrated Management and Marine Protection
- 9) New National Parks: Investing in Canada’s Nature, Economy and Heritage
- 10) Ecogift Tax Incentives: Extending to Inventory Lands

Governance for Sustainability

- 11) Sustainability Indicators: Supporting Smart Policy

³ Speech by Prime Minister Stephen Harper in Berlin, Germany, on June 4, 2007. www.pm.gc.ca/eng/media.asp?category=2&id=1681.

⁴ Sir Nicholas Stern has shown that the costs to the global economy of not taking action on climate change could reach \$7 trillion annually. “\$7-trillion warning on global warming” (Globe and Mail, 30 October 2006).

⁵ A price on greenhouse gas emissions – a “carbon price”- can be implemented through a cap-and-trade system or a carbon tax. See *Carbon Pricing*, later in this document.

One of the fundamental requirements for making a successful and efficient transition to a sustainable Canadian economy – one that improves the lives of Canadians and the health of our environment in an ongoing, integrated fashion – is adapting 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 exploitation and development through ecological subsidy reform; and
- 2) Ensuring market prices “tell the environmental truth” through environmental pricing reform.

Adherence to the “polluter pays” principle⁶ is central to both of these strategies.

The Green Budget Coalition has commended measures in the Government of Canada’s past budgets for making important progress towards aligning federal fiscal policy with sustainability, including actions to phase out subsidies to fossil fuels in *Budgets 2007* and *2011*, and is highlighting leading opportunities in this document to build upon that progress. A prime opportunity for achieving financial savings and environmental benefits is available by ending subsidies for fossil fuels, nuclear power, offshore oil drilling and exploration, and primary mineral exploration, extraction and processing. The best opportunity to help market prices “tell the environmental truth” is to implement a price on carbon emissions.

Summary

The Green Budget Coalition strongly believes that the recommendations in this document are crucial for providing Canadians with a healthy environment, a thriving, sustainable economy, and the opportunity to live healthy lives. For this reason, we expect to continue promoting and refining these recommendations until they are adopted. Feedback and suggestions are welcome.

For further information, please contact:

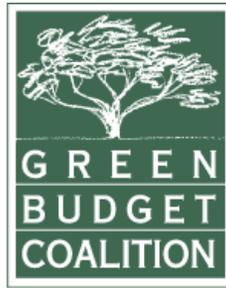
Andrew Van Iterson

Manager, Green Budget Coalition

avaniterson@naturecanada.ca, 613-562-8208 ext. 243

⁶ In Budget 2005, the Government defined “polluter pays” as meaning that “the polluter should bear the costs of activities that directly or indirectly damage the environment. This cost, in turn, is then factored into market prices.”

[<http://www.fin.gc.ca/budget05/bp/bpa4e.htm>] On May 29, 2007, as Environment Minister, the Hon. John Baird re-affirmed the government’s commitment to this principle by telling the Standing Committee on the Environment and Sustainable Development that the government “believes that the polluter should pay.”



Who We Are

The Green Budget Coalition brings together leading Canadian environmental and conservation organizations to present an analysis of the most pressing issues regarding environmental sustainability in Canada and to make a consolidated annual set of recommendations to the federal government regarding strategic fiscal and budgetary opportunities for advancing environmental sustainability for Canadians.

The Green Budget Coalition was founded in 1999 with the recognition that the annual federal budget is often the most important Canadian policy document of the year in terms of environmental impact, and that the integration of environmental values into economic and fiscal policy is a fundamental requirement for achieving environmental sustainability and lifelong human health. The GBC's primary focus is the selection, development, and promotion of strategic fiscal and budgetary recommendations for each annual federal budget, including the advancement of ecological fiscal reform. The GBC is committed to continually refining its recommendations, through in-depth analysis and ongoing dialogue with representatives of the Canadian government and non-governmental organizations.

The Green Budget Coalition comprises twenty of Canada's leading environmental and conservation groups (listed on front cover). These member groups collectively represent over 600,000 Canadians, through their volunteers, members, and supporters. The GBC operates within four caucuses: Clean Air & Climate Change, Protecting Canada's Natural Capital, Healthy Communities & Toxics Cleanup, and Ecological Fiscal Reform, and makes its decisions on a consensus basis.

Nature Canada hosts the Green Budget Coalition. The Green Budget Coalition's Chair and Associate Chair are: Jamie Fortune, Director of Corporate Affairs and Acting Chief Executive Officer for Ducks Unlimited Canada; and Jean Langlois, Strategic Relations Advisor for Nature Canada, respectively.

The Green Budget Coalition sincerely thanks the EJLB, McLean, Salamander and Ivey Foundations for their generous support.

Contents

Executive Summary.....	3
Who We Are.....	6
Preserving Canada’s Environmental Capacity: Fundamental to Canadians’ Prosperity.....	8
Feature Recommendations.....	9
Species at Risk: Extending Program Funding	9
Canada’s Freshwater Resources: Investing for Healthy Communities, Economies, and Environments	11
Energy Efficiency: Providing Energy Cost Relief for Canadians.....	16
Fossil Fuel Subsidy Reform: Fulfilling Canada’s G20 Commitment.....	20
Subsidy and Pricing Reform: Fundamental for a Sustainable Canadian Economy	24
Carbon Pricing: Accelerating Progress Towards a Low-Carbon Economy	28
Financing Climate Action: Providing Canada’s Fair Share for Developing Countries	30
Nuclear Power: Protecting Taxpayers from Liabilities.....	34
Arctic Offshore Liability: Protecting Taxpayers.....	36
Mineral Sustainability: Shifting Incentives from Extraction to Recycling	38
Investing in Healthy Citizens, Communities and Environments	42
Sustainable Transportation: Improving Commutes and Air Quality.....	42
Protecting Consumers from Toxic Substances: Investing in the Canada Consumer Product Safety Act	46
New National Parks: Investing in Canada’s Nature, Economy and Heritage.....	48
Oceans: Improving Health and Economy through Integrated Management and Marine Protection....	50
Ecogift Tax Incentives: Extending to Inventory Lands	52
Governance for Sustainability.....	53
Sustainability Indicators: Supporting Smart Policy	53

This document is also available at www.greenbudget.ca/2012/prelim.html .

www.greenbudget.ca

Preserving Canada's Environmental Capacity: Fundamental to Canadians' Prosperity

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, plus 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 – and thus its ability to protect the environment, nature and Canadians' health from pollution – **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.

Feature Recommendations

Species at Risk: Extending Program Funding

Recommendation Summary

Renew the government's commitment to effectively implementing Canada's Species at Risk Program by continuing its \$25 million annual investment, renewed in the 2007 budget. This will enable a renewed approach that will reduce risks to both our wildlife and our economy by focusing on collaborative action on the ground and in the water.

Investment Required:

\$25 million per year for 5 years (2012-2017)

Benefits for Canadians

- Conserve Canada's biological heritage, leading to improved ecosystem health,
- Involve Canadians directly in local stewardship activities to benefit species at risk,
- Protect Canada's international trade relationships by ensuring we meet minimum international standards and uphold Canada's commitments under the Convention on Biological Diversity, and
- Protect and recover species at risk sooner and therefore at much lower cost than delaying action.

Background and Rationale

Canada's Species at Risk Program combines a number of scientific, legislative, partnership, and stewardship tools to prevent wildlife species from becoming extinct (globally and nationally), to help recover those that are endangered or threatened, and to prevent other species from becoming endangered or threatened. This results in the ongoing protection of Canada's natural endowment of biological diversity for the benefit of nature and all Canadians.

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 focused 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 and managing activities to protect critical habitat. All three departments will need renewed financial resources in order to further develop the core competencies and partnerships required to implement recovery actions 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 nongovernmental conservation organizations. The three

departments should also use the next three years to fully assess the resources required to implement a sustainable, effective, and efficient program to recover Canada's species at risk.

A broad range of affected industry, landowner and conservation stakeholders have expressed support for extending this species at risk program funding.⁷⁸⁹ These include the Canadian Electricity Association, Canadian Hydropower Association, Canadian Federation of Agriculture, Canadian Parks and Wilderness Society, Canadian Wildlife Federation, David Suzuki Foundation, Ecojustice, Forest Products Association of Canada, Nature Canada, Mining Association of Canada, and World Wildlife Fund Canada.

With this funding extended the federal species at risk program will continue to protect Canada's international trade relationships by ensuring we meet minimum international standards and uphold Canada's commitments as a Party to the Convention on Biological Diversity. These include commitments to: develop or maintain necessary legislation for the protection of threatened species and populations; rehabilitate and restore degraded ecosystems and promote the recovery of threatened species through the development and implementation of plans or other management strategies; and promote the protection of natural habitats and the maintenance of viable populations of species in natural surroundings.¹⁰ In 2010 Canada and the other Parties to the Convention also adopted the Aichi Biodiversity Targets, including the target that by 2020 the extinction of known threatened species has been prevented and their conservation status, particularly of those most in decline, has been improved and sustained.¹¹

A robust and effective species at risk program is also an essential precondition to maintaining the "social license" to operate in the domestic context for many sectors of Canada's economy. In addition, a renewed federal species at risk program will inform the government's ongoing development of the National Conservation Plan.

This short-term investment will engender a long-term net financial benefit to Canada. This is because protecting and recovering species at risk sooner has been shown to achieve greater wildlife conservation results at much lower cost compared to the more desperate efforts that are required when action is delayed.¹²

Contact: Jean Langlois / Nature Canada jlanglois@naturecanada.ca 613.562.3447 EXT 236

⁷ Renewal of the Species at Risk Act. A joint submission of the Canadian Electricity Association, the Canadian Hydropower Association, Forest Products Association of Canada, Canadian Parks and Wilderness Society, Canadian Wildlife Federation, David Suzuki Foundation, Ecojustice, Nature Canada and WWF-Canada. 18 August 2011.

⁸ SARA Renewal: Working Together to Make SARA Succeed. Letter and brief signed by Canadian Federation of Agriculture, Canadian Parks and Wilderness Society, Canadian Wildlife Federation, David Suzuki Foundation, Ecojustice, Nature Canada and WWF-Canada. 15 August 2011.

⁹ SARA Funding Renewal Submission. Letter from the Mining Association of Canada. 16 August 2011.

¹⁰ Convention on Biological Diversity. 1992. Article 8.

¹¹ Strategic Plan for Biodiversity 2011-2020 and the Aichi Biodiversity Targets. Adopted in decision X/2, tenth meeting of the Conference of the Parties, October 2010, Nagoya, Japan. Target 12 for Strategic Goal C.

¹² Drechsler, M., Eppink, F.V. & Wätzold, F. (2011). Does proactive biodiversity conservation save costs? *Biodiversity Conservation*. 20: 1045-1055.

Canada's Freshwater Resources: Investing for Healthy Communities, Economies, and Environments

Recommendation Summary

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. **Healthy Communities – Water and Wastewater Systems** – Help to address the infrastructure deficit and absence of adequate water systems in First Nations, Inuit, and Métis communities. An initial investment of **\$600 million per year for five years** is required.
2. **Healthy Economies – Ensuring reliable water systems** – Address gaps in monitoring of water quality and quantity identified by the Commissioner of the Environment and Sustainable Development in his Fall 2010 report. **Invest \$30 million per year for five years.**
3. **Healthy Environments – Regional Ecosystems** – Help secure the health of Canada's diverse aquatic environments. Regional investments include **\$45 million per year for five years** in the **Great Lakes-St. Lawrence**; **\$5 million per year for five years** in **Lake Winnipeg**; and **\$5 million per year for five years** in the waters of the **Northwest Territories**.

Investment Required:

For water and wastewater systems:

\$600 million per year for five years

Ensuring Reliable water systems:

\$30 million per year for five years

Healthy Environment – Regional Ecosystems

\$45 million per year for five years in the **Great Lakes – St. Lawrence**

\$5 million per year for five years to restore the health of **Lake Winnipeg**; and,

\$5 million per year for five years to support implementation of the **Northwest Territories Water Stewardship Strategy**

Benefits for Canadians

- Clean drinking water contributes to the health of Canadians, reducing costs to the healthcare system and economy.
- Upgraded wastewater infrastructure, to: meet higher health and environmental standards; increase jobs; and spur technological innovation.

- Healthy aquatic ecosystems to support tourism, fisheries and other green business opportunities, and to sustain the cultural importance of water to Canada and Canadians from coast to coast to coast.

Background and Rationale

1. Healthy Communities – Water & Wastewater Systems:

Through Health Canada, the federal government is responsible for enhancing and protecting the health of Canadians. Clean and accessible drinking water is essential for health and safety. The federal government has a clear mandate and fiduciary responsibility to ensure safe drinking water for Aboriginal Canadians (First Nation, Métis and Inuit) whose communities are located on federal land. The cost of not providing clean drinking water to Canadian communities is significant: Environment Canada estimates that the cost of health problems related to water pollution is \$300 million per year.¹³

The biggest challenge of access to clean drinking water is in small and rural communities and First Nations communities. Over 1,700 small and rural communities and over 100 First Nations communities across Canada are under boil water advisories in any given year.¹⁴ Immediate attention is required to address the condition of First Nations, Inuit and Métis water systems. A recent assessment commissioned by Aboriginal Affairs and Northern Development (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.¹⁵

Moving beyond the 2012 budget, nationally, aging and failing water infrastructure is a persistent challenge for Canadian communities. Much of the water supply infrastructure in Canadian communities is over fifty years old. Outdated wastewater treatment plants and antiquated combined sewer overflow systems allow unacceptably high levels of pollutants to enter Canadian waterways. Further, traditional infrastructure is poorly suited for adaptation to climate change.

Investing in development of clean water technology and innovative water management practices is an important and growing element of the new green economy. Studies show that investing \$1 billion in addressing the water infrastructure deficit would create between 11,500 and 47,000 jobs.¹⁶ Canada has the opportunity to be leaders in the water technology and management sector. According to the Conference Board of Canada, there is a US\$360 billion global industry in water management.”¹⁷ Funding announcements such as FedDev Ontario providing nearly \$20 million to help fund water technologies in

¹³ Environment Canada. (2009) *Quick Facts*, <http://www.ec.gc.ca/eau-water/default.asp?lang=En&n=11A8CA33-1>.

¹⁴ Water Canada. (2011) *Urgent Delivery*, <http://watercanada.net/2011/urgent-delivery/>.

¹⁵ Aboriginal Affairs and Northern Development Canada. (2011). *National Assessment of Water and Wastewater Systems in First Nation Communities - 2009–2011* <http://ainc-inac.gc.ca/enr/wtr/nawws/index-eng.asp>.

¹⁶ Forum for Leadership on Water. (2008) *Clean Water – Green Jobs* http://www.allianceforwaterefficiency.org/uploadedFiles/News/NewsArticles/NewsArticleResources/Clean_Water_Green_Job_s-FLOW-Dec08.pdf.

¹⁷ Conference Board of Canada. (2008) *Canada’s Pathways Toward Global Innovation Success: Report of the Leaders’ Panel on Innovation-Based Commerce*. <http://www.conferenceboard.ca/documents.aspx?did=2762>.

Ontario communities, if applied to First Nations communities, will help solve a Canadian water crisis, while propelling Canada into the global water management industry.

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 to address the condition of First Nations, Inuit and Métis water and wastewater systems.

Budget: \$600 million per year for five years

2. Healthy Economies – Ensuring reliable water systems:

All sectors depend on timely and reliable information on water quality, quantity and aquatic ecosystem health. Despite water being an input to almost every part of the economy (e.g., energy, industry) we lack the information and knowledge needed to make sound decisions to manage and mitigate water risk, and have steadily been eroding our capacity to generate it. In December of 2010, the Commissioner for the Environment and Sustainable Development released a scathing report on federal surface water monitoring programs.¹⁸ His overall assessment was that “Environment Canada is not adequately monitoring the quality and quantity of Canada’s surface water resources”.¹⁹

The way we monitor, report, and manage water in the 21st century is changing. Remote sensing, online integration, open source technology, and accessing real time data are all increasingly feasible, desired and required. New stakeholders, with an understanding of the risk of poor information, are coming to the table to partner in data integration. Companies like IBM are embracing the economic opportunity and partnering with stakeholders to improve data sharing and integration.²⁰ This revolution of water information management is a largely untapped growth opportunity for Canada’s information technology sector.

Funding is required to improve collection and management of water data and to support long-term forecasting of future water availability and safety. Research and monitoring of long-term trends will be vital to ensuring Canada has the understanding and ability to react to impacts of a changing climate, increased development and population growth on water risks and opportunities.

Invest \$30 million per year for five years to update and modernize Canada’s water monitoring infrastructure and expertise, and to advance Canada’s role in the business of water information technology.

Budget: \$30 million per year for five years.

¹⁸Office of the Auditor General of Canada. (2010). *2010 Fall Report of the Commissioner of the Environment and Sustainable Development* http://www.oag-bvg.gc.ca/internet/English/parl_cesd_201012_e_34435.html

¹⁹Office of the Auditor General of Canada. (2010). *2010 Fall Report of the Commissioner of the Environment and Sustainable Development* http://www.oag-bvg.gc.ca/internet/English/parl_cesd_201012_e_34435.html pg 2

²⁰Water Canada. (2011). *Smarter Water* <http://watercanada.net/2011/smarter-water/>

3. Healthy Environments – Regional Ecosystems:

Securing the health of Canada’s diverse aquatic environments demands a strategic approach that focuses spending on priority areas for protection and restoration. Healthy environments support healthy economies. Where regional ecosystems have deteriorated, restoration can bring high economic return. Estimates suggest that restoring the Great Lakes ecosystem will lead to direct economic benefits of \$6.5–11.8 billion dollars from tourism, fishing, and recreation alone.²¹

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);

The GLWQA is in the process of being re-negotiated and there may be new commitments that must be considered in future, but these numbers are to ensure continued investment under the existing Agreements. Current commitments include much-needed on-going work on cleaning up long outstanding Areas of Concern; reducing existing sources of contamination to the Great Lakes and the St. Lawrence; rehabilitating fish and wildlife habitats, tracking environmental recovery, virtual elimination of persistent bio-accumulative toxic substances, sound management of chemical substances in the Great Lakes Basin, improving water quality and conserving biodiversity, responding to climate change and addressing drinking water issues in the Great Lakes and St. Lawrence regions.

- b. Investing **\$5 million per year for five years** to restore the health of **Lake Winnipeg**;

Lake Winnipeg is the 10th largest freshwater lake in the world and sustains the largest commercial fishery west of the Great Lakes. In June 2011, the governments of Canada and Manitoba together released a “State of Lake Winnipeg” report.²² The report found that the quality of Lake Winnipeg waters has deteriorated over time and concluded that the frequency and intensity of algal blooms in the lake have increased in association with rising phosphorous and nitrogen loading from diffuse and point sources in the Lake Winnipeg watershed. The report recognized the need to address nutrient enrichment in Lake Winnipeg and work has begun through initiatives such as the provincial Lake Winnipeg Action Plan and the federal Lake Winnipeg Basin Initiative to address these issues. Further investment is also required to address emerging issues such as increased toxins, aquatic invasive

²¹ Austin, J; Anderson, S; Courant, P; Litan, R (2007). *Healthy Waters, Strong Economy: The Benefits of Restoring the Great Lakes Ecosystem* http://www.brookings.edu/metro/pubs/20070904_gleiecosystem.pdf.

²² Government of Manitoba. (2011). *State of Lake Winnipeg 1999 – 2007* http://www.gov.mb.ca/waterstewardship/water_quality/state_lk_winnipeg_report/pdf/state_of_lake_winnipeg_rpt_technical_low_resolution.pdf.

species, climate change and the impacts of regulation of lake levels by downstream hydropower facilities.

- 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).

The waters of the Northwest Territories, while in relatively pristine condition, are under growing pressure, particularly in the Mackenzie Basin where developments in Alberta and BC are impacting water quality and quantity. As a partner in the development of *Northern Voices*, *Northern Waters*, and *The NWT Water Stewardship Strategy*, the Government of Canada has affirmed its role and responsibility as a lead partner in the implementation of the strategy and in protection of the waters of the NWT. The strategy represents an immense opportunity to protect vital water resources, and the many benefits they provide to northern residents and to all Canadians, before they are over-stressed.

Alternative and Complementary Policies

Canada should begin now the work towards establishing a sequel to the Building Canada Fund in 2014. Under Canada's Economic Action Plan and Building Canada Fund, some stimulus funding was provided for drinking and wastewater infrastructure. Over longer term, sustained funding will be required to help address the estimated \$30 billion cost of upgrading water and wastewater systems across the country.²³

To complement infrastructure investments Canada needs to fund training and technological development, specifically for small rural communities and First Nation communities. The introduction of Bill S-11, The Safe Drinking Water for First Nations Act – an act that attempts to establish enforceable drinking water regulations on First Nations reserves was a start. The Bill was introduced into the Senate on May 26, 2010 but was stopped when the 2011 Federal election was called. It proposed to establish enforceable regulations for drinking water and wastewater based on provincial drinking water laws. At first glance, Bill S-11 demonstrates that the Government of Canada recognizes the need to prioritize the issue of safe drinking water for First Nations. However, the proposed approach to addressing the problem only further entrenches a fragmented policy system on First Nations communities. Lack of funding and a legislative framework continues to undermine the ability to improve access to safe drinking water on First Nations reserve.

Contacts

Theresa McClenaghan/Canadian Environmental Law Association theresa@cela.ca 416.960.2284 EXT 219
Tony Maas/World Wildlife Fund – Canada tmaas@wwfcanada.org 519.572.9972

²³ A Federation of Canadian Municipalities (FCM) – McGill University survey in 2007 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.)

Energy Efficiency: Providing Energy Cost Relief for Canadians

Recommendation Summary

Energy efficiency is the cleanest, most affordable, and fastest way to make more energy available to our economy, while reducing pollution and keeping business and homeowner costs down. The federal government has taken important steps to improve energy efficiency in the past through the successes of the federal ecoENERGY programs and the beginning of a collaborative process through the Canadian Council of Energy Ministers. These are important programs to build on in order to catch up with many other G8 and OECD nations. In 2012, the federal government should redouble its commitment to energy efficiency, starting with clear, time-bound efficiency targets, a comprehensive energy efficiency strategy, and sufficient and consistent resources allocated to efficiency policies and programs. The federal government can start working towards a strengthened policy framework for energy efficiency by including in the 2012 budget the following first steps:

1. A National Green Homes Strategy to build on energy efficiency successes in Canadian houses. To align with ambitious initiatives in the U.S. and U.K., Canada needs a comprehensive strategy to have 100% of existing housing stock retrofitted by 2030. Canada can begin by aiming for 15% by 2015, and making strategic investments in residential efficiency, focusing on low-income households, and building on *Budget 2011's* \$400 million one-year funding. As part of a Green Homes Strategy, the Government of Canada should invest \$250 million per year for five years to improve the energy efficiency of existing homes, focusing on lower-income households.
2. New financing options to attract broad private investment in low-carbon initiatives. The creation of new green bond instruments would create a pool of capital for low-interest revolving loans that would target energy efficiency and clean energy development. Improving access to capital for low-carbon initiatives is a key barrier to the development of clean energy. The Government of Canada should help to create a \$5 billion fund by seeding it with \$100 million per year for five years. Private investment would be targeted to build this to a \$5 billion revolving fund that would generate returns for investors based on clean energy development.

Investment Required:

\$350 million per year for five years

Benefits to Canadians

Energy efficiency measures are some of the most cost-effective ways to reduce greenhouse gas emissions and secure cost savings for Canadian energy consumers. The less energy we use the fewer fossil fuels we burn, resulting in cleaner air, cleaner water and fewer greenhouse gas emissions. Lowering energy consumption means Canadians will have more capital and discretionary spending power that can be used to invest more productively in the wider economy. More efficient use of energy reduces the vulnerability of our businesses and Canadians' personal budgets to rising global energy prices in addition to protecting lower-income Canadians from the threat of energy poverty.

During turbulent economic times, investment in energy efficiency is even more important. Any program that helps reduce energy costs has the same benefit as a tax cut by putting more money in the hands of households and businesses. Jurisdictions that invest in energy efficiency see net economic benefits in GDP growth and jobs as a direct result of the work, and also as energy savings are re-invested in the local economy. For example, in a recent study including six northeastern American states, Environment Northeast found that a \$16.8 billion investment over 15 years to reduce electricity consumption would increase economic activity by \$168 billion, and create jobs equivalent to 767,000 job years as consumers spend their energy cost savings in the wider economy.²⁴

Background and Rationale

The benefits of federal incentives to secure energy savings can be particularly effective in residential programs. A recent review of Natural Resources Canada's energy efficiency programs found that incentives directed at home retrofits were the least likely of the efficiency incentive programs to experience problems with free-ridership: 84% of the energy savings in the ecoENERGY Retrofit—Homes program could be directly attributed to the program.²⁵

Energy costs are particularly challenging for low- and fixed-income Canadians, but while they would see significant benefits from efficiency measures, they are also often least able to afford the initial investment required. When targeted at lower-income households, efficiency programs can avoid free riders, and achieve the added benefit of combating energy poverty by protecting more vulnerable households from rising energy prices.

These win-win opportunities for both environmental and economic gains has inspired collaboration and consensus, such as the Canadian Premiers' commitment through the Council of Federation to improve energy efficiency by 20% by 2020 in their respective jurisdictions, and more recently, the consensus between environmental NGOs and industry groups, through the ENGO-Industry Energy and Climate Dialogue, that energy efficiency is a shared priority.

To tap into the significant opportunities for emissions reduction and job creation, the federal government needs to refocus its energy efficiency efforts with achievable targets, a more comprehensive national strategy, and targeted, predictable, long-term funding. As Canada builds a broader energy efficiency plan, the following recommendations can be implemented quickly to start reducing emissions and producing tangible benefits in cost savings for consumers and economic stimulus.

1. A National Green Homes Strategy to build on energy efficiency successes in Canadian houses.

The energy used to heat Canadian homes, run appliances and keep the lights on is responsible for about 15% of Canada's total greenhouse gas emissions. Wasted energy, due to inadequate insulation,

²⁴ Environment Northeast, *Energy Efficiency: Engine of Economic Growth A Macroeconomic Modeling Assessment*, October 2009. <http://www.env-ne.org/resources/open/p/id/964>

²⁵ Natural Resources Canada. *Report on the Review of Clean Energy Initiatives*, March 25, 2011.

inefficient lights and appliances, and insufficient weatherproofing, means that Canadians burn more fossil fuels than necessary to keep our homes comfortable. Yet of the over nine million homes in Canada, only 8% have been retrofitted to improve efficiency as a result of government programs. While these improvements have been important and significant, there remains work to do.

By implementing energy efficiency measures such as improved standards for new homes and retrofits of existing housing stock, Canada could achieve sizable emissions reductions and energy cost savings. For example, homeowners who conducted retrofits supported by the current federal ecoENERGY incentive programs expect to reduce their home energy bills by, on average, 23%.²⁶ A national program should be set up to reach achievable goals of 15% of existing housing stock by 2015, 40% by 2020, and 100% by 2030. This strategy would bring Canada in line with efforts in the US and the UK.

The focus of existing energy efficiency programs needs to be expanded to include a full suite of support measures, including energy labelling, financing options allowing home owners to pay for retrofits out of future energy savings, and training and certification of renovators to ensure quality control. The EnerGuide Home Rating Systems be strengthened and maintained without a break. A home retrofit incentive program should be re-launched, with more targeted incentives and initial audits made available free of charge. Natural Resources Canada should prioritize incentives that target longer-payback items and encourage fuel switching to low-carbon energy sources as well as major appliance upgrades. Special attention should be directed towards increasing the energy efficiency of lower-income households. As an example, in the U.K. half of all measures for home energy efficiency are directed towards low-income households.

Cost: \$250 million per year for 5 years

2. New financing options to attract broad private investment in low-carbon initiatives.

Energy efficiency projects can provide a safe return on investment in the form of energy cost savings, but often projects are stymied by an inability to pay for the upfront costs of retrofits and efficiency measures in new homes and facilities. Access to capital can be an ongoing challenge to energy efficiency projects even when they are cost effective in the medium- to long-term. The creation of government-backed loan guarantees, or “Green Energy Bonds”, would reduce the costs and risks of accessing capital.

A green bond is a government-backed financial instrument designed to engage the public by raising capital for clean energy investments. The capital would be available in a revolving fund to address the market gap in accessing capital that many clean energy and energy efficiency projects face even when they have overall positive rates of return. Addressing this gap will accelerate the deployment of carbon-reducing technology, while generating positive returns for those who have invested in the bonds. The resulting projects will contribute to achieving broader government goals such as its climate change targets and its laudable goal of generating 90% of Canada’s electricity from non-emitting sources within the next ten years.

²⁶ Natural Resources Canada. *Report on the Review of Clean Energy Initiatives*, March 25, 2011.

A Green Bond revolving fund would directly involve the Canadian public in a positive way on the climate change issue. A 2007 poll conducted by Nanos Research found that 82% of Canadians support the idea of a Green Bond initiative and 62% indicated they would purchase Green Bonds with an interest rate similar to a Canada Savings Bond. The European Investment Bank issued a Climate Awareness Bond in 2007, which can be examined as a precedent for this initiative. Combined with other innovative financing mechanisms, such as facilitating on-bill financing of home retrofits and instruments that allow Canadians to “repay as they save,” new Canadian Green Bonds can help address the challenge of securing private investment for good efficiency projects.

Cost: \$100 million per year for five years

Contacts

Sachi Gibson, Pembina Institute, sachig@pembina.org, 613-216-1976 ext. 30

Tim Weis, Pembina Institute, timw@pembina.org, 780-485-9610 ext. 105

Fossil Fuel Subsidy Reform: Fulfilling Canada's G20 Commitment

Recommendation Summary

In recognition of the adverse economic and environmental impacts of fossil fuel subsidies, 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. The Government of Canada has made important commitments to phase out subsidies in the oil sands sector through specific announcements in *Budgets 2007* and *2011*,²⁷ measures estimated to increase federal revenues by approximately \$15 million in 2011-12 and \$30 million in 2012-13.²⁸

While these are important first steps, Canada has an opportunity to reap far greater savings through the continued phase-out of fossil fuel subsidies while contributing to the country's stated intention of being a ‘clean energy superpower.’ The Green Budget Coalition recommends that for *Budget 2012* the Federal Government make further commitments to phase out subsidies to fossil fuels. The optimal next steps will be to remove the following tax preferences for fossil fuels, identified by the Department of Finance Canada as subsidies for potential reform:²⁹

1. **Canadian Exploration Expense:** Allows companies to deduct 100% of their exploration expenses from their income tax each year (in the coal sector this includes the intangible costs of mine development). The deductible rate should be brought in line with normal capital depreciation rates.

Annual savings: Over \$400 million per year³⁰

2. **Canadian Development Expense:** Allows companies to deduct 30% of their development expenses from their income tax each year (in the coal sector this includes the cost of acquiring a mineral property or a right to explore). The deductible rate should be brought in line with normal capital depreciation rates.

Annual savings: Over \$940 million per year³¹

²⁷ 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.

²⁸ <http://actionplan.gc.ca/initiatives/eng/index.asp?mode=2&initiativeID=207>

²⁹ 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>.

³⁰ The 2010 report entitled “Fossil Fuels – At What Cost?” estimated that federal government support through the CDE and CEE to the oil sector in Newfoundland and Labrador, Saskatchewan and Alberta was \$711 million in 2008. While this estimate has been useful it is incomplete, as it does not cover all of Canadian oil production and omits support to the natural gas sector. Adopting the lump sum comparison approach (see Fossil Fuels – At What Cost?, Appendix 2, page 133) but applied to all oil and gas activity in Canada, federal support through the CDE and CEE averaged \$1.34 billion (CDN \$2010) annually over the 2004 to 2009 period.

³¹ The 2010 report entitled “Fossil Fuels – At What Cost?” estimated that federal government support through the CDE and CEE to the oil sector in Newfoundland and Labrador, Saskatchewan and Alberta was \$711 million in 2008. While this estimate has been useful it is incomplete, as it does not cover all of Canadian oil production and omits support to the natural gas sector. Adopting the lump sum comparison approach (see Fossil Fuels – At What Cost?, Appendix 2, page 133) but applied to all oil and

3. **Flow through shares:** Allows the rights to income tax deductions for new expenditures on exploration and development by the company to be passed on to investors when income is not available to take advantage of the Canadian Exploration Expense, Canadian Development Expense and Canadian Oil and Gas Property Expense. The flow-through shares should be adjusted according to the tax reforms for each deductible expense.

Annual savings: Likely small

4. **Tax depreciation rates for oil sands leases and building mines:** Currently tax depreciation rates for the mining sector apply to oil sands leases and to building mines. This rate is more favourable than the rate applied for the oil and gas sector. Recommend reducing the rates to be aligned with the rest of the oil and gas sector.

Annual savings: \$50 million per year

5. **Accelerated Capital Cost Allowance (ACCA) for the mining sector:** While the cost of tangible assets used in resource extraction and initial processing is usually deductible at a rate of 25% per year, new and expanded mines – including coal mines – allow a deduction of up to 100%. This ACCA has already been phased out for oil sands assets; the GBC recommends extending this to the coal sector.

Annual savings: \$5 million³²

Total savings: Over \$1.39 billion per year

Benefits to Canadians

By substantially increasing annual federal revenues, these tax reforms would help to ease Canada's fiscal pressures and provide further opportunities to invest in the clean energy economy of the future, through energy efficiency, renewable energy technologies and financial support for climate action in developing countries. As a comparison, savings from removing these five tax preferences could fund all of the Green Budget Coalition's feature recommendations on species at risk, fresh water, and energy efficiency, with over \$300 million left over.

Eliminating federal subsidies for oil would also result in substantial greenhouse gas emission reductions with minimal impact on Gross Domestic Product (GDP).³³ Reducing the federal government's support to the oil industry will help to build Canada's reputation as a clean energy superpower and improve the industry's international image.³⁴

gas activity in Canada, federal support through the CDE and CEE averaged \$1.34 billion (CDN \$2010) annually over the 2004 to 2009 period.

³² 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>.

³³ 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.

³⁴ Canada's reputation as a 'clean energy superpower' was one of the rationales for supporting subsidy reform in the Deputy Finance Minister's memo to the Minister of Finance, March 2010.

Background and Rationale

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 September 2009, G-20 Leaders recognised that “fossil-fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change” and pledged to rationalize and phase out inefficient fossil-fuel subsidies over the medium term.³⁵

The Green Budget Coalition commended the Government’s actions in *Budgets 2007* and *2011* to reduce subsidies to the oil sands,³⁶ measures estimated to increase federal revenues by approximately \$15 million in 2011-12 and \$30 million in 2012-13.³⁷ While these measures are laudable, a recent study by the Global Subsidies Initiative, using the World Trade Organisation’s definition of “subsidy,”³⁸ estimates that total federal support to the oil industry alone amounts to \$1.38 billion per year, between 17 different federal measures.³⁹ The tax expenditures that the GBC is recommending for reform in the 2012 Budget – worth over \$1.39 billion per year – were also recommended for reform by the Deputy Minister of Finance⁴⁰ and include those tax preferences currently creating the highest costs for the federal government (in the form of unrecovered revenues). Reforming these subsidies is the next step to meeting Canada’s commitment to the G-20.

Many of these tax preferences, accelerated deductions and flow-through shares recommended for reform date back to the 1970s and have since outlived their original objectives.⁴¹ Phasing out these tax preferences would also be consistent with the Advantage Canada goal of enhancing growth by improving the sectoral neutrality of the tax system.

³⁵ G-20 Leaders. (2009) *Leaders’ Statement: The Pittsburgh Summit*. September 24-25, 2009.

<http://www.pittsburghsummit.gov/mediacenter/129639.htm>.

³⁶ 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.

³⁷ <http://actionplan.gc.ca/initiatives/eng/index.asp?mode=2&initiativeID=207>

³⁸ The WTO’s Agreement on Subsidies and Countervailing Measures (ASCM), which is supported by 153 countries including Canada, defines four broad categories of subsidy: (i) direct transfer of funds or potential direct transfer of funds or liabilities; (ii) government revenue forgone or not collected (the category that tax expenditures in this recommendation fall into); (iii) government-provided goods or services, or government-purchased goods; (iv) income or price support. Uruguay Round Agreement. (1994). Agreement on Subsidies and Countervailing Measures, Article 1.

³⁹ Sawyer, Dave and Seton Stiebert, 2010.

⁴⁰ Memorandum from Michael Horgan to Minister of Finance, March 18, 2010.

⁴¹ Sawyer, Dave and Seton Stiebert, 2010.

The potential economic and environmental benefits of subsidy removal are illustrated in the Global Subsidies Initiative's above-noted study "Fossil Fuels: At What Cost? Government support for upstream oil activities in three Canadian provinces – Alberta, Saskatchewan and Newfoundland and Labrador". This study models the economic and greenhouse gas emission impact of removing \$2.82 billion worth of federal and provincial subsidies⁴² by 2020. The study estimates that the savings from removing these subsidies could increase the federal government's revenues by 0.9 per cent, create jobs as economic activity moves from the capital-intensive oil industry to more labour-intensive industries, and reduce national greenhouse gas emissions by 2.1 per cent. The study finds that eliminating subsidies would reduce output from high-cost, marginal producers but that, overall, the oil sector would still double in size between now and 2020.

Contacts

Dave Sawyer/International Institute for Sustainable Development dsawyer@iisd.ca 613.238.9820

Hilary Hove/International Institute for Sustainable Development hhove@iisd.ca 613.238.9821

⁴² Note that the study includes a wider set of subsidies (e.g. royalty reductions, direct spending, loan guarantees) for all four governments (Federal, Alberta, Saskatchewan, Newfoundland and Labrador) in the analysis.

Subsidy 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; and
- 2) Ensuring market prices "tell the environmental truth" through environmental pricing reform.

Adherence to the "polluter pays" principle⁴³ is central to both of these strategies.

1) 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.

The federal government made important progress in this area in *Budgets 2007 and 2011* by initiating the phase-out of the 100% accelerated capital cost allowance (ACCA) for the oil sands, and then reducing the deduction rates for intangible capital expenses in oil sands projects to those applicable to the conventional oil and gas sector.

This document outlines the most important next steps in ending such counterproductive subsidies, regarding tax subsidies in *Tax Subsidies for Fossil Fuels* and *Mineral Sustainability*, and regarding off-

⁴³ In Budget 2005, the Government defined "polluter pays" as meaning that "the polluter should bear the costs of activities that directly or indirectly damage the environment. This cost, in turn, is then factored into market prices."

[<http://www.fin.gc.ca/budget05/bp/bpa4e.htm>] On May 29, 2007, as Environment Minister, the Hon. John Baird re-affirmed the government's commitment to this principle by telling the Standing Committee on the Environment and Sustainable Development that the government "believes that the polluter should pay."

book accident liabilities in *Nuclear Power* and *Arctic Offshore Liability*. The subsidies identified in these recommendations are, collectively, economically inefficient, financially risky, and counterproductive to sustainable energy policy.

The federal government could save over \$1.4 billion annually and make important progress towards sustainability by ending these subsidies. Bringing the deductible rates for oil, natural gas and coal, under the Canadian Exploration Expense and the Canadian Development Expense, in line with normal capital depreciation rates could save \$1.34 billion alone.

2) Ensuring Prices “Tell the Environmental Truth”

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.”⁴⁴

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.

When measuring the life-cycle impacts of specific goods and services, we generally consider the costs and benefits associated with resource depletion, waste creation, pollution emissions, and ecological restoration resulting from the development, production, transportation, sale, use, and disposal of those goods and services. However, the full spectrum of such costs and benefits is generally not represented in the market price of goods and services, and instead the remaining “externalities”⁴⁵ are borne by society at large. As a result of this imbalance, businesses and consumers tend to over-consume (or, in some cases, under-supply) particular goods and services as their market prices are artificially low.⁴⁶

Economists refer to this situation as a “**market failure**” because there is no market for the externalities, and the market for the goods and services is distorted. Economic theory states that when prices reflect true costs, an optimal level of consumption takes place, and society’s welfare is maximized.

Canada’s economy suffers from two major types of ongoing market failure: (1) we are over-consuming, and thus inefficiently utilizing, our non-renewable natural resources; and (2) we are over-polluting our air, water, and soil — and through them our own human bodies — well beyond capacities to absorb this pollution without notable harm.

⁴⁴ 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.

⁴⁵ “Externalities” refers to costs or benefits, resulting from an economic activity, that impact an individual or entity not involved in determining that activity, and which are not reflected in market prices. Common environmental externalities include air, water and noise pollution, as well as the stewardship of wetlands and forests.

⁴⁶ Common examples of over-consumed goods include oil and natural gas (where prices do not usually reflect pollution impacts on health and the environment) and roads for transportation (where usage fees are rarely charged), and imported fruits and vegetables (where prices do not reflect the environmental and health costs of the transportation-related pollution). Under-supplied services include forests (where the environmental and health benefits are rarely compensated financially).

As a result of these market failures, when businesses and citizens make strategic operational and purchasing decisions to favour human health and the environment, they often find themselves incurring increased costs in order to do so as these goods and services are competing with more harmful options whose prices are artificially low. This imbalance is counterproductive to achieving a healthier sustainable society because it sends the wrong signals to all of us as economic decision-makers.

Environmental Pricing Reform

The Green Budget Coalition firmly believes that Canada's prosperity requires that market prices for goods and services accurately reflect the true value of resources required to produce them, today and in the future, as well as the full costs (including risks of major accidents) and benefits to the environment and human health associated with their development, production, transportation, sale, use and disposal.

This approach is often called environmental pricing reform (EPR), and could be implemented through a mix of market-based instruments, such as taxes, fees, rebates, credits, tradable permits and subsidy removal.

Such EPR policies create many benefits. They preserve natural resources for higher value uses, reward environmental leaders amongst businesses and citizens, and stimulate environmental innovations with global export potential. Overall, they expedite the development of healthy, sustainable economies, where economic success brings concurrent environmental and human health benefits, and where self-interested economic choices are more frequently those resulting in the most social and environmental benefits. Furthermore, such policies provide enhanced fairness to citizens and business through the "polluter pays" principle, by forcing polluters to pay for the harm they cause.

Canada lags behind most other industrialized countries — including the United States and Australia — in utilizing market-based instruments, particularly financial disincentives.

However, the GBC has commended the government for some important fiscal actions, including steps towards imposing a price on greenhouse gas emissions through a cap-and-trade system, and the introduction of a modest, temporary carbon tax as part of a revenue-neutral "feebate" structure for new automobile purchases.

The most important EPR actions available to the federal government are: (1) implementing a robust carbon price (*see the Carbon Pricing recommendation later in this document*); (2) removing liability caps and raising minimum insurance levels for nuclear power and offshore oil operations (*See Nuclear Power and Arctic Offshore Liability, later in this document*) and (3) developing and implementing a comprehensive environmental pricing plan, in coordination with provincial, territorial and municipal governments.

Investing in Sustainability

To achieve a sustainable economy and society, while minimizing costs to Canadians, strategic investments will also be required – particularly in energy efficiency, renewable energy, intra- and inter-city transit, water and wastewater infrastructure, climate action in developing countries, and new progress indicators (most of which are addressed by recommendations in this document).

In many cases, the scale of these government investments can be significantly reduced by implementing ecological subsidy reform and environmental pricing reform measures, as discussed above. For example, the costs of accelerating energy efficiency and renewable energy can be reduced by implementing a robust carbon price, while removing existing tax subsidies and liability caps for fossil fuels and nuclear power will make private investments in renewable energy and energy conservation more attractive. Net transit operating costs can be significantly reduced by implementing fair disincentives to driving, particularly a strong carbon price and road user pricing. Also, the need for building expensive new water and wastewater infrastructure can be reduced by raising water usage fees to better cover the costs of the related infrastructure.

In addition, for fiscal policy to support sustainability, federal financial transfers to provincial and municipal governments, and subsidies to industry, should be made conditional on achieving defined environmental outcomes, with some inter-governmental transfers made conditional on implementing true-cost pricing measures (such as for road use).

Contact

Andrew Van Iterson / Green Budget Coalition avaniterson@naturecanada.ca 613.562.3447 EXT 243

Carbon Pricing: Accelerating Progress Towards a Low-Carbon Economy

Recommendation Summary

To accelerate Canada's transition to a low-carbon economy and achieve Canada's climate change commitments, the federal government should move immediately to implement a well-designed, transparent and environmentally rigorous carbon pricing system.

Background and Rationale

Carbon pricing, or putting a price on greenhouse gas (GHG) emissions through a carbon tax or cap-and-trade system, can be one of the most powerful tools we have in the fight against climate change and in Canada's transition to a competitive, low-carbon economy.

An increasing number of jurisdictions are implementing carbon pricing. In Canada, both Quebec and BC have carbon taxes. The European cap-and-trade system has been in place since 2005. 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. Australian Prime Minister Julia Gillard has announced that Australia will have a carbon tax in place by July 2012.

Without a price on GHG emissions, there are no limits to the amount of carbon pollution that can be spewed into the atmosphere and there are no costs associated with this pollution. Implementing carbon pricing would improve fairness because it adheres to the polluter pays principle. If well-designed, a carbon tax or cap-and-trade system can be a powerful incentive to encourage companies and households to pollute less and invest in cleaner choices, accelerating the shift away from fossil fuels and towards a clean energy economy. In addition, the revenues generated by a carbon price can play a pivotal role in achieving important complementary objectives.

Recycling Carbon Pricing Revenues

Once introduced, a carbon price⁴⁷ will quickly begin to generate substantial amounts of revenue for government (or, alternatively, allow the government to distribute emission allowances with an equivalent financial value⁴⁸). For instance, an "economy wide" carbon price of \$100 per tonne (i.e., a price on all emissions from burning fossil fuels and almost all fixed process emissions⁴⁹) has been projected to generate more than \$45 billion in government revenue annually by 2020.⁵⁰ Most of that revenue will be quickly reintroduced into the Canadian economy. But because the financial flows could

⁴⁷ A carbon price can be implemented through a cap-and-trade system or a carbon tax.

⁴⁸ Under a cap-and-trade system, emitters must hold a government-issued tradable allowance for every tonne they emit. The government can choose between auctioning off all the allowances, thereby generating revenues, or distribute some allowances free of charge to recipients who are free to sell the allowances themselves. Either way, a key policy decision is "who receives the financial value of the allowances?" ("allowance value"), whether the government distributes that value in the form of revenues (dollars) or in the form of allowances. In this recommendation, we use the term "revenues," but in the context of a cap-and-trade system our recommendations should be understood as applying more generally to the use of total allowance value.

⁴⁹ Excluding agricultural, forestry and landfill emissions.

⁵⁰ David Suzuki Foundation and Pembina Institute, 2009, *Climate Leadership, Economic Prosperity*. Vancouver, BC. <http://pubs.pembina.org/reports/climate-leadership-report-en.pdf>.

be very significant, the question of *how* the money is “recycled” becomes a critical factor. The Green Budget Coalition recommends the following priority areas for the use of carbon pricing revenues:

- Helping to meet Canada’s GHG reduction targets
- Helping to meet Canada’s international climate finance obligations
- Protecting low income Canadians
- Protecting the international competitiveness of trade-exposed manufacturing sectors that are demonstrably at risk of “carbon leakage”⁵¹
- Compensating households in regions at risk of undue impacts, and
- Reducing personal and corporate taxes.

*For more details on the Green Budget Coalition’s views on carbon pricing, please see the GBC’s Recommendations documents for Budget 2011 (on revenue recycling specifically) and Budgets 2009 and 2010 (more comprehensive).*⁵²

Contacts

Andrew Van Iterson/Green Budget Coalition avaniterson@naturecanada.ca 613.562.3447 EXT 243

Dale Marshall/ David Suzuki Foundation dmarshall@davidsuzuki.org 613-594-8839

⁵¹ Where production could be relocated to a jurisdiction with less stringent emission controls.

⁵² Available from http://www.greenbudget.ca/main_e.html.

Financing Climate Action: Providing Canada's Fair Share for Developing Countries

Recommendation

To fulfill its commitment to provide a fair share of “fast start” climate financing, the Government of Canada should provide at least \$1.2 billion, or 4%, of the US \$30 billion in new and additional financing that developed countries have committed to provide in the 2010–12 period. For Canada in *Budget 2012*, this likely means an investment of \$400 million in new and additional funding for fiscal year 2012–13. However, because the government has yet to announce a climate financing contribution for fiscal year 2011–12, a greater contribution may be required in 2012–13 to close the gap. To provide predictability, the Government of Canada should also outline its plans for increased climate financing contributions in the years after 2012.

Investment Required:

At least \$400 million in new and additional funding in 2012

Background and Rationale

Poorer countries require financial support to adapt to the impacts of climate change and to reduce their own greenhouse gas (GHG) emissions. For example, adaptation expenses could include strengthening infrastructure so that it can withstand more violent storms or investing in malaria prevention as the disease spreads to new regions. Financing for emission reductions (“mitigation”) could, for example, cover the extra cost of powering homes with electricity generated from wind energy instead of coal.

These investments are urgently needed to protect some of the world’s most vulnerable people from the consequences of a problem they did little to create. They are also widely seen as essential to build the trust between countries needed to successfully negotiate a fair, ambitious and binding global climate agreement. In addition, funding for emission reductions and climate adaptation overseas is widely recognized as helping to increase stability and security in a world already experiencing a ramp-up in extreme weather, which can have destabilizing consequences in vulnerable states.

The December 2009 Copenhagen Accord set two specific goals for the provision of “scaled up, new and additional, predictable and adequate funding”:

- Developed countries committed to provide “new and additional resources... approaching USD 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation.”
- Developed countries also committed to “mobilizing jointly USD 100 billion dollars a year by 2020... from a wide variety of sources.”⁵³

Many estimates show that far more funding will in fact be needed to meet developing countries’ needs; however, the financing outlined in the Copenhagen Accord, and subsequently affirmed in the December 2010 Cancun Agreements, is an important starting point.

⁵³ Copenhagen Accord, Paragraph 8. Available at <http://unfccc.int/home/items/5262.php>.

The Government of Canada formally signalled its support for the Copenhagen Accord in January 2010⁵⁴ and announced its 2010 tranche of climate financing under the Accord in June 2010.⁵⁵ Although this announcement lacked key details,⁵⁶ it took a critical first step by recognizing Canada’s fair share of climate financing: when developed countries contribute funds to global goals, Canada’s traditional share has been just over 4% of the total.⁵⁷ Then-Environment Minister Jim Prentice announced a contribution of \$400 million in 2010, or about 4% of the US\$10 billion to be provided each year from 2010 to 2012.

This commitment is a foundation that can be built on in Budget 2012. The Green Budget Coalition believes that Canada must provide at least its \$400 million “share” for 2011 and 2012, and increase that contribution from 2013 onwards.

Unfortunately, Budget 2011 was silent on the question of financial support for developing countries as they tackle climate change. This omission means that, even if the government does announce a climate financing commitment for 2011–12 later this year, the funding is unlikely to meet the test of being “new and additional” to Canada’s investments in other forms of international aid. (Instead, most grants that Canada’s 2011–12 contribution provides are likely to come from the International Assistance Envelope, which reduces the amount of funding available for other human rights or poverty reduction priorities in poor countries.)

Canada’s 2010 allocation of climate financing⁵⁸ left room for improvement.⁵⁹ In 2011 and in Budget 2012, Canada can strengthen its financing performance by:

- Directing a greater share of Canada’s contribution to adaptation initiatives among the poorest and most vulnerable. The Copenhagen Accord calls for a “balanced” allocation of financing to both adaptation and mitigation. In 2010, just 11% of Canada’s total financing was earmarked for adaptation — a disappointingly small fraction that, in our view, falls far short of a “balanced” allocation. In 2011 and beyond, Canada should devote a greater share of its climate financing to adaptation, and ensure that the adaptation dollars it provides are directed to funds or projects that take into account the perspectives of local communities, women, people affected by poverty, and other vulnerable groups. In particular, we believe that the Least Developed Countries Fund (LDCF) — a UN fund designed to address the immediate adaptation needs of the 48 least developed countries — and the Adaptation Fund are both excellent destinations for a portion of Canada’s short-term adaptation support. For this reason, we were pleased to see Canada contribute \$20 million in 2010 to the Least Developed Countries Fund. In 2011 and beyond, Canada should demonstrate leadership

⁵⁴ Canada’s submission is available from <http://unfccc.int/home/items/5264.php>.

⁵⁵ Environment Canada News Release, “Government of Canada Makes Major Investment to International Climate Change” (June 23, 2010). Available at <http://www.ec.gc.ca/default.asp?lang=En&n=714D9AAE-1&news=FD27D97E-5582-4D93-8ECE-6CB4578171A9>.

⁵⁶ The Pembina Institute’s response to the announcement is available at <http://climate.pembina.org/media-release/2039>.

⁵⁷ For more details, see Clare Demerse, *Our Fair Share: Canada’s Role in Supporting Global Climate Solutions*, at <http://climate.pembina.org/pub/1815>.

⁵⁸ A background paper providing details of the allocation is available from Environment Canada’s website, at <http://www.ec.gc.ca/Content/4/5/4/454E8F15-55C2-4A70-9FC0-249B35E5DD80/faststart.pdf>.

⁵⁹ For more information, please see the Pembina Institute’s blog “Canada’s ‘fair share’ is not as advertised” at <http://www.pembina.org/blog/413>.

by also directing financing to the UN's Adaptation Fund, which is mandated to give special attention to the needs of the most vulnerable communities, and which provides eligible countries or entities with direct access to funding.

- Providing a greater share of the 2011 and 2012 financing as grants, not loans. The Green Budget Coalition believes that loans are not appropriate for adaptation to climate change, and was pleased to see that Canada did not provide any loans for adaptation in 2010. However, the government did allocate nearly three-quarters of its total contribution to the World Bank's private sector lending arm, the International Financing Corporation, in the form of loans for clean energy development. While we agree that a limited use of concessional loans to finance emissions reductions in the energy sector is appropriate, there is also an essential role for grants in building capacity and supporting emission-reduction policies. In 2011 and 2012, we would like to see Canada provide the vast majority of its fast-start financing in the form of grants. If Canada does opt to provide loans, only the "grant" (concessional) element of the loan should be counted as a contribution towards Canada's fair share of climate financing.⁶⁰ (In 2010, the Government of Canada claimed credit for the full face value of its loans, not solely for their grant element.)
- Ensuring that its contributions are "new and additional" funding, as required by the Copenhagen Accord. In our view, funding cannot be considered "new and additional" unless it is over and above the funding that Canada has committed to official development assistance (ODA). The need to provide additional funding is all the more essential in light of Budget 2010's announcement of a cap on the international assistance envelope at \$5 billion in ongoing annual support. The best ways to ensure additionality, particularly as the "fast-start" period ends after 2012, are to:
 - Tap into a new source of domestic revenue, such as a price on carbon⁶¹ or new reductions in the subsidies (tax expenditures) benefitting Canada's fossil fuel producers. Providing Canada's international climate financing contribution from sources of revenue other than the International Assistance Envelope and (in the case of loans) general revenues would ensure that the funding is both new and additional.
 - Build international support for "innovative" sources of financing, such as a levy on GHG pollution from aviation and shipping, or a tax on financial transactions.
- Providing increased transparency about climate financing to Canadians. In addition to the international reporting requirements that Canada accepted under the Cancun Agreements,⁶² the

⁶⁰ See p. 5–6 of Oxfam International's briefing note on "Climate Finance Post-Copenhagen" (<http://www.oxfam.org/en/policy/climate-finance-post-copenhagen>) for more information on the use of, and accounting for, loans in climate financing. The OECD's Development Assistance Committee (the body that sets rules for aid accounting) has established rules to determine whether a loan is "concessional" (i.e. whether a loan's terms are generous enough to constitute a "grant element"). For example, loans to the regional development banks' market-based lending operations are not considered to be concessional. (For more information on OECD loan definitions, see http://www.oecd.org/glossary/0,2586,en_2649_33721_1965693_1_1_1_1,00.html-1965485.)

⁶¹ For more information on this option, see the briefing note entitled "How to Finance Support for Climate Adaptation in Vulnerable Countries" (published by Oxfam Canada, Oxfam Quebec and the Pembina Institute) at <http://climate.pembina.org/pub/1936>.

⁶² See, for example, Section III A, Paragraphs 40(c), 41, 42(b), 46(a)(i) and Section IV A Paragraph 96 of *Draft decision -/CP.16*, "Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention" (available online at http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_lca.pdf).

Government of Canada should report to Parliament and to Canadians on its climate financing contributions.⁶³ Specifically, the federal government should report on:

- The terms of any agreements that the Government of Canada reaches with international financial institutions to deliver climate finance. For example, as noted above, over 70% of Canada’s 2010 financing was allocated as concessional support to the IFC for “a broad portfolio of clean energy projects.” The Government of Canada has yet to provide any clarification about how it, or the IFC, defines “clean energy” — a critical component in determining the environmental effectiveness of this contribution.
- The degree of concessionality of any loans Canada provides.
- The data needed to determine the newness and additionality of Canada’s fast start financing. For example, what baseline is Canada using when it asserts that funding is new or additional? What is the source of revenue for the funds provided?
- The rationale for the specific funds or projects that the Government of Canada has decided to support
- Updates on the disbursement of previous financing contributions
- The results achieved with previous financing contributions. In the case of mitigation support, this would include information about greenhouse gas (GHG) emissions reduced relative to a baseline; private sector funding (and other types of co-financing) leveraged; supportive policies adopted in the recipient country; and the geographical and sectoral distribution of projects funded. On the adaptation side, reporting on results should include assessments of the projects’ effectiveness in reducing vulnerability; any social or environmental co-benefits achieved through the work; and assessments of the success achieved in involving civil society organizations and vulnerable communities in the recipient countries. Some projects will be able to provide results more rapidly, while others by their nature will aim at longer-term changes.

Contact

P.J. Partington/Pembina Institute pjp@pembina.org

⁶³ For more recommendations concerning transparency and climate financing, please see the Pembina Institute’s submission to the Department of Finance’s consultation on the ODA Accountability Act at <http://www.pembina.org/pub/2173>.

Nuclear Power: Protecting Taxpayers from Liabilities

Recommendation Summary

Protect federal taxpayers by requiring reactor operators to cover the full costs and risks of reactor operation by:

1. Removing the cap on reactor operator liability, and
2. Raising the level for minimum accident insurance to match those of other western nations.

Financial Savings

In the case of a nuclear accident, the federal government currently carries a significant offbook liability for damages because of the liability cap of \$75 million for nuclear operators. Removing this cap, as other countries have done, would eliminate this off-book liability by transferring the liability to reactor operators.

Background and Rationale

In 2011, the federal government took a laudable step in leveling the playing field for green energies by privatizing Atomic Energy of Canada Limited. By committing to no additional direct or indirect subsidies for reactor projects, the federal government has protected taxpayers and aligned federal policy with the “polluter pays” principle.⁶⁴

The federal taxpayer also carries a significant contingent liability for damages and clean up costs in the case of a nuclear accident. The *Nuclear Liability Act* caps the liability of nuclear operators at \$75 million and transferring the cleanup costs for a nuclear accident from the industry to the federal government.

Removing this cap, as other countries have done, would eliminate this off-book liability by transferring the liability to reactor operators.

The Fukushima nuclear accident and the recent oil spill in the Gulf of Mexico have highlighted that catastrophic industrial accidents are a realistic possibility.

Like the off-shore oil industry, like the nuclear industry in Canada, however, has historically enjoyed a cap on its accident liability in case of an accident. In the event of an accident, the federal government will be pressured to pay for clean up and compensation costs above this liability cap, creating an enormous contingent liability for taxpayers.

⁶⁴ In Budget 2005, the Government defined “polluter pays” as meaning that “the polluter should bear the costs of activities that directly or indirectly damage the environment. This cost, in turn, is then factored into market prices.” [http://www.fin.gc.ca/budget05/bp/bpa4e.htm] On May 29, 2007, as Environment Minister, the Hon. John Baird re-affirmed the government’s commitment to this principle by telling the Standing Committee on the Environment and Sustainable Development that the government “believes that the polluter should pay.”

Internationally, there has been a move to modernize nuclear liability legislation to both require nuclear reactor operators to maintain more appropriate levels of minimum accident insurance and toward the removal of caps on reactor operator liability. This trend can be expected to accelerate in light of the Fukushima disaster in Japan.

During the last Parliament, the federal government proposed the *Nuclear Liability and Compensation Act* (NLCA) in an attempt to modernize the Nuclear Liability Act, which dates from the 1970s. Instead of removing the cap on reactor operator liability, however, the draft NLCA proposes to simply increase the cap on reactor liability from \$75 million to \$650 million. All potential clean-up and compensation costs above \$650 million are essentially an off-book taxpayer liability.

The damages incurred by the Fukushima disaster far exceed the \$650 million liability limit proposed by the NLCA.

What's more, the standard adopted by most European countries for minimum levels of insurance is approximately \$1.4 billion. The proposed NLCA would establish a level of minimum insurance at the same level as the liability cap at \$650 million. There is no clear reasoning why minimum levels of insurance must or should coincide with a liability cap. The impact, however, is that the federal taxpayer carries a significant contingent liability in the event of a reactor accident.

The Joint Review Panel recently convened to assess the environmental impacts of building new reactors at the Darlington nuclear site noted that Canada's nuclear legislation contravenes the federal commitment to the polluter pays principle.

The Panel has recommended that the federal government review the economic impacts of a severe nuclear accident. What's more, the Panel recommended that the federal government align its nuclear liability legislation with the polluter pays principle, stating:

The Panel recommends that the Government of Canada update the *Nuclear Liability and Compensation Act* or its equivalent to reflect the consequences of a nuclear accident. The revisions must address damage from any ionizing radiation and from any initiating event and should be aligned with the polluter pays principle. The revised *Nuclear Liability and Compensation Act*, or its equivalent, must be in force before the Project can proceed to the construction phase.⁶⁵

Contact

Shawn-Patrick Stensil/Greenpeace Canada shawn.patrick.stensil@greenpeace.org 416.597.8408 EXT 3013

⁶⁵ Joint Review Panel, August 2011, *Environmental Assessment Report – Summary, Darlington New Nuclear Power Plant Project*, <http://www.ceaa.gc.ca/050/documents/51695/51695E.pdf>, page 11.

Arctic Offshore Liability: Protecting Taxpayers

Recommendation Summary

The current design of Canada's Arctic offshore liability rules leaves governments, taxpayers, communities and the environment vulnerable in the event of a significant spill. The GBC recommends that the \$40 million absolute liability cap for drilling operations conducted in Canada's Arctic should be abolished; liability should be commensurate with the entire potential costs of a worst case spill.

Financial Implications

In the case of an oil spill, the federal government could be left responsible for clean-up costs in the billions of dollars. Removing this cap, as other countries have done for nuclear accident liability, would eliminate this off-book liability by transferring the liability to those companies operating offshore.

Background and Rationale

The liability cap for drilling operations conducted in Canada's Arctic is established pursuant to s.26(1)(a) and 26(2)(a) of COGOA and the *Oil and Gas Spills and Debris Liability Regulation*, SOR/87-331, and is important not only because of how it shapes and limits any claims for compensation (post-spill), but also because of how it creates a perverse incentive for offshore companies to pursue excessively risky activities (pre-spill), knowing they will not bear the full liability cost. Abolishing the liability cap will encourage companies to weight the potential liability and make better risk decisions.

Following the Macondo blowout in the Gulf of Mexico in 2010, the US Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) calculated the cost of a catastrophic spill resulting from a deepwater blowout in the Gulf to be about \$16.3 billion, resulting primarily from: "(1) Natural resource damage to habitat and creatures, (2) infrastructure salvage and cleanup operations of areas soiled by oil, and (3) containment and well-plugging actions plus lost hydrocarbons."⁶⁶

BOEMRE acknowledged there is of course a "considerable degree of uncertainty" in estimating the costs of a future spill, given the unknown timing, magnitude, duration and trajectory of such a spill,⁶⁷ and that spill costs "could be much higher if all costs ... could be monetized."⁶⁸ Recent media reports suggest the actual cost of the Macondo spill could be considerably higher than the above estimates, with the latest reports putting the cost at about \$40 billion.⁶⁹ BOEMRE's calculation might provide a suitable starting point for estimating the costs of a major Arctic spill. If drilling is authorized in Canada's Beaufort Sea, the costs associated with an Arctic spill could also be considerably higher given the additional challenges, such as the potentially increased time to contain a blowout and respond to spilled oil given weather and

⁶⁶ BOEMRE Drilling Safety Rule, October 2010, page 63364. BOEMRE Drilling Safety Rule – Benefit-Cost Analysis, Sep 2010, page 7.

⁶⁷ BOEMRE Drilling Safety Rule – Benefit-Cost Analysis, September 2010, page 33.

⁶⁸ BOEMRE Drilling Safety Rule – Benefit-Cost Analysis, September 2010, page 63.

⁶⁹ Guardian story on BP oil spill costs, November 2010.

ice conditions, the reduced amount of local infrastructure, the increased distances to transport equipment and personnel, etc.

The Senate Standing Committee on Natural Resources has issued a report that recommends review of offshore liability limits. The National Energy Board's ongoing review of Arctic offshore drilling regulations will culminate in a report in December 2011, and will undoubtedly reflect upon Canadians' concerns with current liability limits. The polluter pays principle should receive full application in the Arctic offshore, with a view to enhancing incentives for industry to avoid spills and to ensure funds are available for full response, cleanup, restoration and compensation should a spill occur.

In the same vein, the GBC also recommends the elimination of the \$30 million absolute liability limit established under the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act and the Canada-Newfoundland Atlantic Accord Implementation Act for offshore operations off Canada's east coast.

This is a fundamental budget issue because it speaks to: a) the adequacy and availability of offshore industry funds to pay for post-spill response clean up and associated damages, including potentially massive environmental damages; and, b) the financial incentive structures established by the liability regime, which directly impact the behaviour of the offshore industry.

Contact

Will Amos/Ecojustice wamos@ecojustice.ca 613.562.5800 EXT 3378

Mineral Sustainability: Shifting Incentives from Extraction to Recycling

Recommendation Summary

Support innovation and the development of environmentally sound closed-loop metal and mineral recycling through the following taxation and fiscal measures:

1. Reverse the relative tax benefits between primary extraction and recycling by eliminating the 100% accelerated capital cost allowance (ACCA) for primary mineral extraction projects and extending the 100% ACCA to metal recycling facilities.
2. Eliminate tax advantages for speculative exploration of primary minerals by ending the Mineral Exploration Tax Credit (METC).
3. Re-allocate \$2-million of current Natural Resources Canada funding from promoting primary extraction to funding a new metal and mineral recycling and stewardship initiative.

See *Tax Subsidies for Fossil Fuels*, earlier in this document, for complementary recommendations and background.

Total Savings

An estimated **\$65 million per year**⁷⁰ from ending the METC, *plus any annual tax gains* due to eliminating the 100% ACCA for primary extraction, *minus* any tax losses due to extending the 100% ACCA to metal recycling.

Benefits for Canadians

- Increased government revenue,
- Reduction in energy consumption, greenhouse gas emissions and other pollutants, and
- Increased domestic supply of recycled metals and minerals.

Background and Rationale

Despite record spending on mineral exploration, economically viable Canadian mineral reserves have declined dramatically in recent years.⁷¹ Few large, high grade deposits are being discovered, leaving the industry to rely on lower grade deposits and deposits in increasingly remote and challenging areas. Exploitation of these reserves is more costly both financially and ecologically. They create more solid waste, effluent, and greenhouse gases, and are more susceptible to fluctuating commodity prices.

Mineral stewardship should entail measures to promote environmentally responsible metal recycling, rather than provide advantages to primary extraction over recycling as current government policies and tax measures do. As the government is challenged to increase revenues, eliminating tax benefits that favour primary extraction over recycling is economically and environmentally sound policy.

⁷⁰ Estimate of value of METC from *Budget 2010*.

⁷¹ Paul Stothart, 2007, *Canada's Mineral Reserves Crisis*. Mining Association of Canada.

<http://www.republicofmining.com/2008/09/24/canada%E2%80%99s-mineral-reserves-crisis-by-paul-stothart/>.

In order to ensure a secure, sustainable, domestic source of minerals for Canadian metal processing industries and downstream manufacturing, Canada needs to invest in closing the loop of mineral stewardship. Developing expertise and technologies in this sector will also position Canada to be a leader in the international marketplace for these in-demand systems.

It is estimated that Canadian households discard between 116,000 and 232,000 tonnes of scrap metal a year, much of which could be recycled.⁷² Substantial opportunities also exist in the construction and demolition, and institutional commercial and industrial sectors. At the same time, it is essential to ensure that recycled steel is not contaminated, particularly with fission origin radionuclides. Confidence in the recycled steel industries products will be seriously compromised if the current trend to allowing “free release” of radioactive steel into the recycled waste stream, free of any regulatory oversight, is allowed to continue.

Recycling of metals and minerals has significant environmental benefits over primary extraction. Mining and metal processing is an energy intensive industry. From 2001 to 2008 twenty mining companies (excluding tar sands operations) reporting to the TSM saw an average increase of 7.6% per year in total greenhouse gas emissions.⁷³ In contrast to these growing emissions from primary extraction, promoting improved recycling of metals has the potential to achieve substantial greenhouse gas reductions.

Natural Resources Canada’s website notes that for every tonne of ferrous metal recycled, the greenhouse gas (GHG) emission reductions are 1 tonne of equivalent carbon dioxide (eCO₂); for every tonne of aluminium recycled, the GHG emission reductions are 6 tonnes of eCO₂); and that for every tonne of copper recycled, the GHG emission reductions are currently estimated at 4 tonnes of eCO₂).⁷⁴ The amount of water pollution and other sources of air pollution are also greatly reduced by recycling, as are the impacts on wildlife and landscapes that are caused by construction and operation of new mines.

The market price for secondary metal and mineral resources is the key driver for successful implementation of recycling. Currently, federal financial policies provide substantial tax benefits uniquely to the mining industry, helping make the prices of primary metals and minerals artificially low, and thus disadvantaging resource recovery and recycling.

The Mineral Exploration Tax Credit was introduced as a temporary measure to promote investment in mineral exploration during a decline in exploration activity caused by a low period in the metal

⁷² Natural Resources Canada, 2009, What is Scrap Metal, <http://www.nrcan-rncan.gc.ca/mms-smm/busi-indu/iar-ilr/wis-wis-eng.htm>.

⁷³ Calculated with data from: Mining Association of Canada, Towards Sustainable Mining Progress Report, 2009, Greenhouse Gas Emissions and Energy Management Progress Report, http://www.mining.ca/www/media_lib/TSM_Publications/2009_Annual_Report/Technical_Data/06_GHG_and_Energy_E.pdf.

⁷⁴ Natural Resources Canada, from fact sheet prepared by staff at the Association of Municipal Recycling Coordinators (AMRC) and Natural Resources Canada (Minerals and Metals Sector), May – October 2004, <http://www.nrcan.gc.ca/mms-smm/busi-indu/iar-ilr/gge-gge-eng.htm>.

commodities cycle. This temporary measure has, however, been continued, despite subsequent increases in both metal prices and investment in exploration. From an ecological fiscal reform perspective, the METC is inappropriate, and it is also uncertain whether or not it has a significant impact on mineral exploration expenditures, in increasing metal reserves, or in creating sustained economic activity. The 2009 update of *Taxation Issues for the Mining Industry*⁷⁵ found that in periods of higher metal prices, tax incentives did little to increase exploration. It also noted that in 2008 when exploration investment dropped 46% due to the recession and low mineral prices, Flow Through Shares (the investment vehicle that the METC is tied to) also decreased by 42%. This data calls into question the ability of the credit to boost exploration investment during lows in the commodity cycle.

Eliminating subsidies to primary extraction would help Canada fulfill its commitment under the OECD's recent Declaration on Green Growth, in which all OECD member countries declare that they "[e]ncourage domestic policy reform, with the aim of avoiding or removing environmentally harmful policies that might thwart green growth, such as subsidies [...] that promote the unsustainable use of [...] scarce natural resources; or which contribute to negative environmental outcomes. We also work towards establishing appropriate regulations and policies to ensure clear and long-term price signals encouraging efficient environmental outcomes."⁷⁶

The Canadian Government's bias to primary extraction over recycling is also seen in Natural Resources Canada's 2010–2011 Report on Plans and Priorities,⁷⁷ which does not mention nor refer to any aspects of secondary resources, recycling or lifecycle stewardship of minerals and metals. Natural Resources Canada has had only a few individuals dedicated to metals and minerals recycling and lacked a clear policy direction and budgetary commitment to improving Canada's performance in this strategic sector.

Given appropriate levels of funding there are several key areas in which the federal government could engage with regards to advancing mineral and metal stewardship including:

- Supporting and facilitating improved data collection of diversion and recycling volumes throughout Canada,⁷⁸
- Reviewing and reporting on effective regulatory measures to promote enhanced recycling including landfill bans, deposits/levies and extended producer responsibility, and
- Promoting research and innovation, and shared learning across design, engineering, economic and environmental fields.
- Revoke the "clearance standard" regulation for radioactively contaminated steel and keep it out of the recycled waste stream⁷⁹.

⁷⁵ Natural Resources Canada, Intergovernmental Working Group on the Mineral Industry, 2009, *Taxation Issues for the Mining Industry: 2009 Update*, <http://www.nrcan.gc.ca/mms-smm/busi-indu/met-qfi/2009/int-int-eng.htm#e>.

⁷⁶ OECD, June 25, 2009, *Declaration on Green Growth. Meeting of the Council at Ministerial Level, 24-25 June 2009*, C/MIN(2009)5/ADD1/FINAL, p. 2-3, [http://www.oalis.oecd.org/oalis/2009doc.nsf/LinkTo/NT00004886/\\$FILE/JT03267277.PDF](http://www.oalis.oecd.org/oalis/2009doc.nsf/LinkTo/NT00004886/$FILE/JT03267277.PDF).

⁷⁷ Natural Resources Canada, *2010-2011 Report on Plans and Priorities*, 2009, <http://www.tbs-sct.gc.ca/rpp/2010-2011/inst/rsn/rsn00-eng.asp>.

⁷⁸ Recycling Council of Alberta in partnership with the Recycling Council of British Columbia, Saskatchewan Waste Reduction Council, Recycling Council of Ontario, Réseau des ressourceries du Québec, and Clean Nova Scotia; March 2004, *Scan of Metals and Minerals Recycling Programs and Associated Climate Change Impacts*, <http://www.recycle.ab.ca/images/stories/Download/MetalsMineralsScanFinal.pdf>.

Integrating recycling into product design and manufacturing is possibly the key opportunity to reducing the costs and increasing the efficiency of recycling. Progress in this area will require innovative, creative and cross-disciplinary approaches. Through support for research and innovation the Government of Canada can support the Canadian manufacturing sector to develop new approaches to efficiently use secondary resources, increasing their competitiveness in a carbon-constrained marketplace while improving their environmental performance.

Contact

Ramsey Hart/MiningWatch Canada ramsey@miningwatch.ca 613.569.3439

⁷⁹ Nuclear Substances and Radiation Devices Regulations, SOR/2000-207.

Investing in Healthy Citizens, Communities and Environments

Sustainable Transportation: Improving Commutes and Air Quality

Recommendation Summary

Invest in electric vehicle infrastructure and incentives, public transit infrastructure and operations across Canada, and support employer benefits for commuting by transit and active transportation.

Priority Actions

1. Invest in electric vehicle infrastructure and electric vehicle purchase incentives, with a focus on pilot markets. \$50 million in 2012.
2. Develop a policy framework for long-term, dedicated investment in national public transit infrastructure and operations.
3. Increase transit funding by \$400 million in 2012, equivalent to 1% of the excise tax.
4. Amend the *Income Tax Act*, in line with the previously proposed Bill C-466, to exempt from taxable income certain types of employment benefits that encourage transit, active transportation and carpooling.

Investment Required and Revenue Implications:

- **\$400 million in 2012**, for public transit infrastructure.
- **\$50 million in 2012**, for electric vehicle infrastructure and incentives.
- **Between \$10 million to \$180 million per year** in reduced tax revenue.

Benefits for Canadians

Investing in electric vehicle technology and infrastructure will increase the viability of electric vehicles as they enter the market. These vehicles help will save Canadians on fuel costs and reduce dependence on fossil fuels.

Scaling up public transit infrastructure and operations in Canada reduces traffic congestion, air pollution and commute times and improves productivity and quality of life. Increasing access to transit and offering incentives for active transportation and carpooling provides Canadians with viable alternatives to single occupancy vehicles. Furthermore, transit already provides Canadians with a variety of benefits:⁸⁰

- Reduces vehicle-operating costs for Canadian households by about \$5 billion annually.
- Reduces the economic costs of traffic collisions by almost \$2.5 billion annually.
- The transit industry directly employs 45,300 Canadians and indirectly creates an additional 24,300 jobs.

⁸⁰ Canadian Urban Transit Association (CUTA), September 2011, *Transit Driving Economic Growth 2011 Pre-Budget Submission*, http://www.cutaactu.ca/en/publicaffairs/resources/CUTA_Pre-Budget_2011-FINAL_EN.pdf.

Background and Rationale

Transportation is responsible for a quarter of Canada's greenhouse gas emissions and personal vehicle road transportation contributes about 2/3 of these emissions. Electric vehicles hold strong potential to revolutionize personal transportation, leading to significant GHG reductions, and the federal government can play a stronger role in encouraging their adoption by investing in technology, infrastructure and related pilot projects.

While more efficient vehicles can help reduce greenhouse gas emissions, annual increases in the number of vehicles on Canada's roads will continue to exacerbate greenhouse gas emissions, regional pollution, and traffic congestion, particularly in urban regions. In the Greater Toronto Area (GTA), the Toronto Board of Trade recently found that congestion leads to \$6 billion in lost productivity,⁸¹ while in the greater Montreal area these losses are \$1.4 billion.⁸² Providing commuters with viable alternatives, including transit and active transportation, can help relieve these issues and lead to economic growth.

The federal Gas Tax Fund was made permanent in 2008 and the federal government has maintained and increased existing commitments,⁸³ however a 2011 Harris Decima poll found that Canadians think that governments have not put enough emphasis on transit. According to the poll 60% of Canadians are "deeply concerned that governments have not made public transit infrastructure the priority it needs to be" and only 29% of Canadians believe the federal government is doing enough to support public transit infrastructure.⁸⁴

1) Electric Vehicles

Investing in Electric Vehicle Technology and Infrastructure: The government has made some initial first steps to encourage the production of electric vehicles through investment into technology research including \$11 million to McMaster University⁸⁵ and a repayable \$71 million to Toyota for production of the electric RAV4.⁸⁶ However to encourage a more significant transition to electric vehicles we recommend that the government establish a new fund to support broader investment in electric vehicle infrastructure and incentives with a focus on pilot markets.

In specific, this fund should target communities with favourable conditions for electric vehicles,

⁸¹ Toronto Board of Trade, 2011. *Reaching Top Speed: Infrastructure: Unleashing Ontario's Ability To Grow*, http://bot.com/Content/NavigationMenu/Policy/VoteOntario2011/Reaching_Top_Speed.pdf

⁸² Board of Trade of Metropolitan Montreal, 2010. *Public Transit: At the Heart of Montreal's Economic Development*, http://www.cmm.qc.ca/documents/etudes/2010_2011/10_11_26_cmm_etude-transport_en.pdf

⁸³ Infrastructure Canada, 2009, *Section II: Analysis of Program Activities by Strategic Outcome*, <http://www.tbs-sct.gc.ca/dpr-rmr/2008-2009/inst/inf/inf02-eng.asp>. Funding includes the \$4-billion Infrastructure Stimulus Fund, the \$8.8 billion Building Canada Fund and the \$2 billion per year Gas Tax Fund. In particular it allocated \$32 million over two years in new funding for the Regional and Remote Passenger Services Contribution Program, and another \$199 million of stimulus funding for improved rail systems.

⁸⁴ Harris Decima, 2011. 2011. *Public Opinion Survey: Canadian Urban Transit Association, Quantitative Research Report March 2011*, http://www.cutaaactu.ca/fr/publicationsandresearch/resources/CUTA_2011_Public_Opinion_Survey_Report.pdf

⁸⁵ Federal Economic Development Agency for Southern Ontario, 2011. *Government of Canada Invests in McMaster University's Automotive Resource Centre*, <http://www.feddevontario.gc.ca/eic/site/723.nsf/eng/00602.html>

⁸⁶ Industry Canada, 2011. *Minister of Industry Highlights Federal Investment in Toyota to Support Jobs in Canada*, <http://news.gc.ca/web/article-eng.do?nid=614649>

including clean energy supply, grid readiness and population density. In communities that are suitable for pilot projects, the federal government should work with provincial and municipal governments to develop charging infrastructure and reduce initial costs of electric vehicles (via purchase incentives). These actions will help reduce the primary barriers to the adoption of EVs – a lack of charging infrastructure and high upfront costs in comparison to traditional gasoline vehicles.

Electric Mobility Canada has proposed a similar program, which calls for \$15.5 million in 2011 and \$41 million in 2012.⁸⁷

- \$2 million in 2011 for codes and standards work by Canadian Standards Association
- \$2.5 million in 2011 and \$7.5 million in 2012 to help develop home and business charging stations.
- \$0.5 million in 2011 and \$2.0 million in 2012 to develop public charging stations.
- \$10.5 million in 2011 and \$31.5 million in 2012 for electric vehicles incentives (\$7,000/vehicle).

In execution of these investments, GBC is recommending the establishment of pilot projects in cities that have favorable conditions for EVs – clean energy supply, grid readiness and population density. GBC recommends a total budget of \$50 million in 2012 to commence pilots, which will include key actions outlined by EMC: home and business charging stations, public charging facilities, incentives – as well as education. The federal government should work with provincial government and pilot municipalities to determine the most effective use of funds.

Transit Action

1) Developing Policy Framework for Public Transit: The Toronto Board of Trade, the Canadian Chamber of Commerce, the Federation of Canadian Municipalities, the Canadian Urban Transit Association (CUTA) and others have called for the creation of a national public transit strategy for long-term dedicated funding. The Government's commitment to the development of a long-term plan for public infrastructure that extends beyond the expiry of the Building Canada plan is a much-needed step in the right direction on this front. The GBC supports this process and expects public transit to be a strong component of this plan. As part of this process, the Government should identify public transit as a key element requiring direct attention to ensure long-term sustainable growth of our communities.

2) Increasing Investment in Public Transit: There is a need for additional dedicated funding for public transit. In 2010 CUTA identified that Canadian transit systems faced a \$53.5 billion shortfall in investment over the next five years for infrastructure expansion, replacement and renewal.⁸⁸ The Toronto Board of Trade identified the federal government share of this as \$2.7 billion annually.⁸⁹

In order for transit to keep pace with needs the government should commit to the full \$2.7 billion annual investment required, however we recognize the difficulty in making such a large investment in the current financial climate. As a result we echo CUTA's recommendation for an additional \$400 million

⁸⁷ Electric Mobility Canada, 2010. Driving the Rapid Adoption of Electric Vehicles in Canada. http://www.emc-mec.ca/eng/pdf/Rapid_Adoption_of_EVs_in_Canada_December_2010.pdf

⁸⁸ Candian Urban Transit Association, 2010. *Transit Infrastructure Needs for the Period 2010-2014*.

⁸⁹ Toronto Board of Trade, 2011. *2011 Pre-budget Submission*.

in transit funding for 2012, equivalent to 1% of the excise tax.⁹⁰

3) Employer Benefits: Employer-based incentives refer to incentive and disincentive programs, including: refunding non-drivers for the savings of not having to provide parking; carpooling services; end of trip facilities (bike racks and showers); and parking supply restrictions. These employer benefits have been found to reduce vehicle kilometres traveled by between 5% and 25%.⁹¹

Critically, we recommend that tax-exempt status be given to employer-provided transit benefits. This would encourage employers to provide a choice between parking and transit benefits, marking transit a more affordable option for commuting to work. In 2009, Bill C-466: *An Act to Amend the Income Tax Act (transportation benefits)*⁹² proposed legislative amendments to the *Income Tax Act* to exempt three types of employer-provided benefits from the calculation of taxable income:

- 1) Up to \$150 per month in public commuter transit service expenses related to commuting to and from work;
- 2) Up to \$150 per month in parking expenses related to the use of public commuter transit or a carpooling group (e.g. park and ride services); and
- 3) Up to \$240 per year to purchase and maintain a bicycle used to commute to and from work.

The Parliamentary Budget Officer investigated the costs of Bill C-466's proposals, and estimated the forgone revenues, following a five-year implementation period, to be between \$10 million and \$180 million annually.⁹³

Contact

Graham Haines/Pembina Institute grahamh@pembina.org 416.644.1016 EXT 3

⁹⁰ Canadian Urban Transit Association (CUTA), September 2011, *Transit Driving Economic Growth 2011 Pre-Budget Submission*.

⁹¹ Donald Shoup, "Evaluating the Effects of Cashing Out Employer-Paid Parking: Eight Case Studies", in *Transport Policy*, Vol. 4, No. 4, 1997, pp. 201-216. Paper published earlier as a program evaluation report for the California Air Resources Board.

⁹² *House of Commons of Canada, Bill C-466*, 2009,

http://www2.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Parl=40&Ses=3&Mode=1&Pub=Bill&Doc=C-466_1&File=24.

⁹³ *A Cost Estimate of Proposed Amendments to the Income Tax Act to Exempt Certain Employer-Provided Transportation Benefits from Taxable Income Ottawa, Canada* February 4, 2010, www2.parl.gc.ca/Sites/PBO-DPB/documents/Costing_C-466_EN.pdf.

Protecting Consumers from Toxic Substances: Investing in the Canada Consumer Product Safety Act

Recommendation Summary:

Fund implementation of the *Canada Consumer Product Safety Act*, with respect to:

- Developing and implementing regulations that prohibit internationally recognized reproductive and developmental toxicants and carcinogens in consumer products where safer substitutes are available;
- Developing and implementing regulations that require warnings on package labels to identify internationally recognized reproductive and developmental toxicants and carcinogens in consumer products (e.g., in the case of essential uses where no substitute is currently available);
- Inspection and other enforcement activities; and
- Delivery of complementary activities outlined in the Food and Consumer Safety Action Plan.

Investment Required:

\$113 million over two years

Background and Rationale

"I'm pleased that our Government now has the power to remove dangerous products from the store shelves. As a mom, the new legislation gives me more confidence in the toys and products I give to my child." – Health Minister Leona Aglukkak⁹⁴

Over the past half-decade, resources allocated to consumer product protection in Canada have dwindled to less than 0.75% of Health Canada's overall budget (in 2009-10), even as other countries have increased investment in this area.⁹⁵ Although *Budget 2008* provided \$113 million over two years for the Food and Consumer Safety Action Plan, this funding has not been renewed and in the absence of new funding approvals, Health Canada is planning to *decrease* spending on consumer product safety from \$31.6 million in 2010-11 to \$28.0 million in 2011-12⁹⁶ and \$29.0 million in 2012-13.⁹⁷

The Food and Consumer Safety Action Plan included updating Canada's *Hazardous Products Act* with the *Canada Consumer Product Safety Act* (CCPSA). This new legislation, which entered into force on June 20, 2011, introduces new inspection powers and enforceable recalls of products that are a danger to human health or safety. It also grants the Minister of Health broad authority to regulate consumer products, including labelling and prohibitions. Sec. 67(1) of the Act mandates the minister to "establish a committee to provide him or her with advice on matters in connection with the administration of the

⁹⁴ http://www.hc-sc.gc.ca/ahc-asc/media/nr-cp/2011/2011_81-eng.php

⁹⁵ Bapuji and Morris, Consumer product safety in Canada: From enacting to acting in *Policy Options* (April 2011) <http://www.irpp.org/po/archive/apr11/bapuji.pdf>

⁹⁶ 2011-12 Estimates Part II – Main Estimates, p. 161 <http://www.tbs-sct.gc.ca/est-pre/20112012/me-bpd/docs/me-bpd-eng.pdf>

⁹⁷ Health Canada 2011-12 Report on Plans and Priorities <http://www.tbs-sct.gc.ca/rpp/2011-2012/inst/shc/shc02-eng.asp#s2.2.4>

Act, including the labelling of consumer products.” Importantly, the CCPSA defines “danger to human health or safety” to include chronic adverse effects on human health, in addition to acute or immediate harm.

Implementing these new provisions in the CCPSA to effectively protect Canadians from chronic health hazards in consumer products requires dedicated resources and complements ongoing activities initiated under the Chemicals Management Plan. New funding on a similar scale as the original investment in the Food and Consumer Safety Action Plan is now needed to *implement* the CCPSA and other elements of the Action Plan. This recommendation would fund the development and implementation of regulations under the CCPSA to prohibit priority categories of toxic substances in consumer products - including internationally recognized reproductive and developmental toxicants and carcinogens - where safer substitutes are available. In addition, the recommended investment includes resources for convening the advisory committee on labelling mandated in sec. 67 of the Act and developing and implementing related hazard labelling regulations to provide consumers with relevant and useable information about chronic health hazards in products (e.g., in the case of essential uses). Finally, the recommended investment would increase Health Canada’s budget for enforcement activities under the CCPSA, including inspection and public reporting.

Investing in these measures would not only help to protect public health and safety, but also stimulate innovation in the development and production of safer substitutes in consumer products. Furthermore, it would help bring Canada’s product safety regime up to date with initiatives in leading jurisdictions. For example, in California legislation dating back to 1986 requires businesses to notify the public about chemicals in consumer products known to cause cancer, reproductive or developmental problems. The European Union requires hazard labelling on certain classes of products and is also phasing in notification requirements and restrictions on “substances of very high concern” in other consumer products.

Contact

Lisa Gue/David Suzuki Foundation lgue@davidsuzuki.org 613.594.5428

New National Parks: Investing in Canada's Nature, Economy and Heritage

Recommendation Summary

The GBC supports the Government of Canada's commitment in the 2011 Speech from the Throne to create "significant new protected areas".

National parks are the cornerstone of the federal government's terrestrial protected areas program, and offer a major opportunity to deliver on this commitment. National parks not only play an important role in protecting Canada's lands, waters and wildlife, they also create jobs, contribute significantly to our economy, and are beloved by Canadians as important symbols of our country, and as places to connect with our magnificent natural heritage. Our parks make a significant contribution to Canada's environmental, economic and cultural well-being – a true win-win-win investment opportunity for the Government of Canada.

Work is well advanced towards creating new national parks in many regions of Canada, as part of on-going efforts to complete our national parks system. In recent years substantive progress has been made. However, completing and managing the national park proposals currently underway requires renewed federal investment.

Investment Required:

\$30 million per year on-going, plus a \$100 million one-time investment for land acquisition and other establishment costs, particularly related to near-urban parks. This would enable the creation and management of nine new national parks over the next three years.⁹⁸

Background and Rationale

Canada's national parks are among the greatest in the world and have been a source of pride for Canadians for over 120 years. Ten of our 42 national parks are recognized as UNESCO World Heritage Sites. These important refuges serve a critical role in providing ecosystem services such as protecting wildlife, clean air and water, and storing carbon reserves, and also form a core part of our international and domestic tourism industry, bringing jobs and other economic benefits to many regions of Canada.

Efforts to establish new national parks have been underway in many parts of Canada for decades. There has been significant progress towards creating new national parks in recent years, and a number of proposals are well-advanced. However, it is important that adequate resources are available to complete this on-going work, and to support good faith negotiations of park establishment agreements with indigenous peoples, other governments and interests. There is a window of opportunity over the next few years to substantially complete our national parks system. As development pressures and the effects of climate change increase across Canada, we have a time limited opportunity to protect our

⁹⁸ This investment would enable the creation of national parks in: South Okanagan-Similkameen, BC; Bowen Island, BC; Flathead Valley, BC; Nááts'ihch'oh (Nahanni Headwaters), NT; Thaidene Nene (East Arm of Great Slave Lake), NT; Bathurst Island, NU; Rouge River Valley, ON; Sable Island, NS; and Mealy Mountains, NL.

wilderness ecosystems for the future, and to create opportunities for Canadians to connect with their magnificent natural heritage.

Benefits for Canadians

- National parks protect healthy ecosystems which provide valuable ecosystem services. They produce clean water and air, protect wildlife habitat including critical habitat for species at risk, and maintain healthy, diverse and resilient ecosystems upon which human health depends. Intact marshes and wetlands can protect coastal communities against flooding and storm surges. Forests help stabilize the earth's climate by absorbing and storing carbon.
 - A 2005 study of the natural capital values of Canada's boreal forest estimated that the total non-market value of boreal ecosystem services is \$93.2 billion -- 2.5 times greater than the net market value of boreal natural capital extraction⁹⁹
 - Ontario's Greenbelt alone contributes \$2.6 billion worth of non-market ecological services each year, an average value of \$3,487 per hectare¹⁰⁰
- National parks provide opportunities for Canadians to spend time with family and friends, to connect with and learn about nature, and to enjoy healthy outdoor recreational activities. They are places to relax and rejuvenate, and contribute to our health and well-being.
- Our parks support the Canadian economy:
 - In 2009, Canada's national, provincial and territorial parks contributed \$4.6 billion to Canada's GDP, supported 64,000 jobs, and provided \$337 million in tax revenues for governments;
 - National parks contributed \$2.5 billion to Canada's GDP and supported 35,000 jobs¹⁰¹;
- Creating national parks delivers on the federal government's 2011 Speech from the Throne commitment to create significant protected areas and contributes to fulfilling Canada's international commitment under the Convention on Biological Diversity to protect 17% of Canada's landscape by 2020 (currently we have less than 10% permanently protected).

Contact

Alison Woodley/CPAWS awoodley@cpaws.org 613.569.7226 EXT 230

⁹⁹ For example, the total non-market value of boreal forest ecosystem services is estimated at \$703 billion -- 14 times greater than the net market value of boreal natural capital extraction (Counting Canada's Natural Capital: Assessing the Real Value of Canada's Ecosystem Services, 2009, Mark Anielski, Sara Wilson for the Pembina Institute. Commissioned by the Canadian Boreal Initiative.

¹⁰⁰ Ontario's Wealth, Canada's Future: Appreciating the Value of the Greenbelt's Eco-Services (2008) Sara Wilson for the David Suzuki Foundation.

¹⁰¹ Canadian Parks Council, 2011, The Economic Impact of Canada's National, Provincial and Territorial Parks in 2009, <http://www.parks-parcs.ca/english/cpc/economic.php>

Oceans: Improving Health and Economy through Integrated Management and Marine Protection

Recommendation Summary:

Improve the health and economy of Canada's oceans by investing in:

1. Completing and implementing Integrated Management Plans to establish ecosystem-based, integrated marine management and conservation plans in all five Large Ocean Management Areas (LOMAs) and associated marine bioregion. These plans should include establishment of a network of marine protected areas in each LOMA and marine bioregion. \$10 million per year over 3 years
2. Complete the designation of a national marine protected area network totaling 32 marine protected areas. \$30 million over 3 years (\$20 million for Parks Canada to create four more National Marine Conservation Areas, \$9 million for Fisheries and Oceans Canada designated marine protected areas and \$1 million for Environment Canada to establish Marine Wildlife Areas).

Investment Required

\$20 million per year for three years

Background and Rationale

Canada's Oceans

Canada's oceans are important. The way the Government of Canada manages our oceans has direct and significant impacts on our sovereignty, our economy, our environment, and the health of Canadians from coast to coast to coast.

Canada's ocean estate covers more than seven million square kilometres, representing more than 40% of our country. Clean ocean waters and coastlines are part of Canada's natural and environmental heritage. They deserve to be protected with the highest standards of regulatory protection.

Canada's oceans generate \$23 billion in economic activity every year, creating jobs and opportunity in more than 1500 Canadian coastal communities and elsewhere across the country. Canada's oceans resources are also a significant component of our export trade, worth over \$4.1 billion annually.

Marine Protection

The Government of Canada has demonstrated leadership by creating new marine protected areas (MPAs): Tarium Nirvutait in the Arctic; and Bowie Seamount and a new National Marine Conservation Area – Gwaii Haanas on the Pacific Coast. The amount of Canadian ocean area protected has grown under this government.

During the recent Conference of the Parties of the Convention on Biological Diversity, Canada committed to the conservation of 10% of its marine areas through the establishment of an ecologically representative and well connected system of protected areas by 2020. Unfortunately, even with the Government's recent announcements, less than 1% of Canada's ocean environments are protected, and

at the current rate of MPA establishment, Canada would not meet its international commitments until 2064.

Canada's long awaited National Framework for Canada's Network of Marine Protected Areas was finalized in 2011, which was welcome news and a good step forward to increasing ocean protection in Canada. A key element of its success will be accompanying resources and funding. In 2008, \$61.5 million was approved over 5 years for the Health of the Oceans (HOTO) Initiative as part of Canada's National Water Strategy. This funding was essential in completing the MPA Network Plan but runs out in March 2012. It is paramount that a new allocation towards marine protection be included in *Budget 2012* to build on this government's record of protecting marine environments in Canada.

Integrated Management

Integrated Management is a policy tool that can establish more certainty for ocean businesses while also protecting ecologically and biologically significant areas. In Canada and around the world it is being used to ensure government functions are streamlined to decrease time-to-market for businesses, to lower transactional costs, as well as to decrease administrative costs for government. Its sustainable development approach has led to conservation and business gains that have the support of a wide range of community stakeholders.

In 2005, Canada initiated the development of integrated management plans and allocated \$28 million for Canada's Oceans Action Plan (OAP) over two years. That provided an opportunity to establish marine planning processes throughout five Large Ocean Management Areas (LOMAs) and to shift relevant federal agencies out of single issue management and uncoordinated decision making, to a more sustainable and coordinated management approach - one that would ensure protection of important marine environments while providing opportunities for business.

Two of these five LOMA plans have been completed, one on the East Coast (Eastern Scotian Shelf Integrated Management Plan, ESSIM) and one in the Arctic (Beaufort Sea Integrated Management Plan). A critical next step in these regions is to embark on spatial planning, to give effect to these plans. The government also began, with an innovative funding approach between a private foundation, First Nations and the Provincial Government, to develop a plan on the west coast (Pacific North Coast Integrated Management Plan, PNCIMA).

Since 2007 there has been no dedicated funding for the LOMA integrated management planning process. Both the Beaufort and ESSIM plans remain unfunded and their implementation is effectively stalled. Regrettably the PNCIMA process is faltering mainly because of a lack of federal funding and capacity to do the comprehensive work required to build a credible oceans management plan. Funding in *Budget 2012* with dedicated timelines and targets for the completion and implementation of ocean management plans in Canada will enable the integrated ocean management process. These plans can help sustain jobs and protect the ocean environment, resulting in healthy coastal communities. Other marine regions on every coast in Canada also await integrated planning processes.

Contacts

Andrew Dumbrille/WWF-Canada adumbrille@wwfcanada.org 613.232.8706 EXT 2506

Bill Wareham/David Suzuki Foundation bwareham@davidsuzuki.org 604.732.4228 EXT 223

Sabine Jessen/CPAWS sabine@cpawsbc.org 604.657.2813

Ecogift Tax Incentives: Extending to Inventory Lands

Recommendation

Amend the *Income Tax Act* to extend the tax incentives provided under the Ecological Gifts Program to apply to donations of ecologically significant lands held by corporations or individuals and not considered capital property (e.g. lands held as inventory). Such donations of inventory lands would, however, need to satisfy all of the existing criteria for an ecological gift.

Background and Rationale

In *Budget 2006*, the Government of Canada took important steps to help Canadian landowners and conservation groups preserve Canada's natural heritage through the reduction of the capital gains inclusion rate on ecological gifts to zero. This measure had long been advocated by the conservation community and its enactment is seen as a very positive step in encouraging private landowners to donate land for conservation purposes. The Green Budget Coalition fully recognizes the importance of this measure and is highly appreciative of the Government's support for conservation as demonstrated through this initiative.

Notwithstanding this measure, certain donations of ecologically significant lands — specifically lands held as inventory rather than as capital property — nonetheless still do not qualify for this preferential form of tax treatment under the Ecological Gifts program. Such lands are often in close proximity to urban areas and face tremendous development pressures that threaten their ecological values. Conservation of such lands is critical to the goal of preserving Canada's natural heritage.

The disposition of lands held as inventory typically generates an income profit rather than a capital gain (because inventory lands are not considered to be capital property). Unlike the gift of capital property, one hundred per cent of the fair market value of donated inventory land must be included in income, although the cost of such land may be deducted for the purposes of determining profit. The result is that the more favourable tax benefits of the Ecological Gifts program therefore do not apply to these types of inventory lands, thereby creating a disincentive to donations of such types of non-capital property, important as these may be. Since the purpose of the Ecological Gifts Program is to offer incentives to preserve significant ecological areas, it is strongly recommended that the benefits of this excellent program be extended equally to all people and companies owning qualified lands which meet the criteria necessary for the determination of an Ecogift, regardless of the basis under which these lands are held. In so doing, the Government will create a powerful incentive to landowners to donate lands of significant ecological value, for the benefit of all Canadians.

Contact

Rob Wilson/Nature Conservancy of Canada rob.wilson@natureconservancy.ca 416.932.0050 EXT 278

Governance for Sustainability

Sustainability Indicators: Supporting Smart Policy

Recommendation Summary

Renew and expand upon existing indicators of Canada's natural capital, building on federal progress to date, in order to provide better information to federal decision-makers and to advance implementation of the Federal Sustainable Development Act. Provide funding for:

1. Renewing the Canadian Environmental Sustainability Indicators and providing greater temporal and spatial consistency of the data: air quality, freshwater quality, and greenhouse gas emissions. \$10 million per year for 3 years.
2. Implementing a suite of new low-cost, high-value initiatives to advance natural capital indicators:
 - a. Municipal, provincial and federal governments to collect the necessary data to undertake priority natural capital valuation assessments related to water in Canada. \$3 million for one year.¹⁰²
 - b. Establishing a national research, education and training agenda focused on the valuation of natural capital for policy-making in Canada. This agenda could be facilitated by a number of national organizations that currently work on natural capital indicators. \$3 million per year for 3 years.¹⁰³
 - c. Instituting a national initiative to develop and measure critical indicators related to the environmental implications of human behaviour in Canada, including: sustainable energy and household material consumption, and the flows of key materials through the economy. \$1.5 million per year for 3 years.
 - d. Developing pilot studies to examine how natural capital indicators can be effectively linked to decision making. \$2 million per year for 3 years.
3. Developing and introducing a concept of "national capital" as a framework for assessing national wealth and prosperity. \$1 million per year for 3 years.

Investment Required

\$20.5 million for the first year, then \$17.5 million per year for the next 2 years

Background and Rationale

Countries around the world have learned that there are great potential benefits to integrating social, environmental and economic considerations when making policy decisions, and that the best economic, environmental, and social policy decisions create benefits in all three spheres, maximizing the use of public funds. At the same time, Canadians have learned from experience, including the East Coast cod fishery and the Walkerton water crisis, that the costs of making economic decisions in isolation from environmental and social concerns can be very high, requiring significant public funds to remediate environmental and social damage.

¹⁰² It is expected that in each watershed examined the data gathering, analysis and research costs are approximately \$150,000. This funding assumes the provision of funding for an initial pilot program in 20 cities and towns in Canada.

¹⁰³ This funding is based on a similar national research initiative like the Sustainable Forest Management Network.

As the Organization for Economic Co-operation and Development (OECD) notes, building capacity to measure the progress of societies is one of the key opportunities to improve the quality of decision-making and accountability.¹⁰⁴ The Green Budget Coalition (GBC) commends the Government of Canada for its progress to date in implementing natural capital indicators, including their two-year renewal in *Budget 2010*, and previously in adopting the Federal Sustainable Development Act.¹⁰⁵

Federal Sustainable Development Act

Canada has a great opportunity to lay the groundwork for comprehensively integrated policy by effectively implementing the Federal Sustainable Development Act, whose structure builds upon lessons learned in Canada and around the world.¹⁰⁶

This important Act encourages the federal government to consider the interconnections between the economy, the environment and human well-being every time it makes a major decision. It embeds environmental and sustainability priorities at the highest level of decision-making by legislating a cabinet committee on sustainable development, only the second legislated cabinet committee in Canada's history, to oversee the development and implementation of a Federal Sustainable Development Strategy. The Act requires the federal government to set "measurable" targets for protecting Canada's environment, to set out a clear strategy for meeting those targets, and to assign specific Ministers the responsibility for meeting respective targets.

The Path Forward in 2012

The success of this Act in advancing integrated sustainability for Canadians will depend substantially on the information available to federal decision-makers and to the Canadian public.

To this end, the Government of Canada should make a longer-term and more comprehensive commitment to tracking the changing value of Canada's natural capital, as well as the known factors influencing these changes. The Green Budget Coalition believes the best next steps are to fund the four measures listed above, which will expand and broaden the benefits from Canada's current natural capital indicators. Implementing these recommendations will help the Government of Canada to measure progress towards achieving environmental and social objectives, and to gauge the effectiveness of different strategies.

Importantly, the realization of the full potential benefits from such indicators will also depend on the federal government providing leadership, coordination and support to improve the quantity and quality

¹⁰⁴ OECD, *Istanbul Declaration*, 30 June 2007, <http://www.oecd.org/dataoecd/14/46/38883774.pdf>. See also OECD, *Measuring the Progress of Societies*, http://www.oecd.org/document/5/0,3343,en_40033426_40037349_40038469_1_1_1_1,00.html.

¹⁰⁵ The Federal Sustainable Development Act was enacted in June 2008. <http://laws.justice.gc.ca/eng/F-8.6/index.html>.

¹⁰⁶ For example, Mexico has integrated sustainable development principles explicitly into its national development planning structure, while the Philippines National Economic Development Authority chairs the Philippine Council for Sustainable Development. Switzerland and the United Kingdom have been leaders in using integrated environmental, economic and social frameworks for evaluating policy proposals. International Institute for Sustainable Development, 2003, *National Strategies for Sustainable Development*, p. x-xii. This document provides useful examples, and analysis, of how 19 countries have implemented sustainable development strategies.

of environmental information monitored and shared by all levels of government in Canada.

It should be noted that the federal government currently collects some of the necessary information to capture an understanding of Canada's natural capital through the Canadian System of Environmental and Resource Accounts. Currently, these data sets are incomplete in their ability to capture the stock of natural assets and the flow of ecosystem services, which would constrain establishing their economic value. Immediate attention should be focused on developing a framework for collecting these data sets.

National Capital Framework

The Green Budget Coalition also encourages the federal government to introduce the concept of "national capital" as a framework for assessing national wealth and prosperity, as outlined by Sustainable Prosperity:

Norway – a country much like Canada – has pioneered a framework through which its economy is broken down into various forms of capital (human, natural, built, financial, etc.). With a commitment to increasing its national capital year-to-year, the breakdown allows policy makers and the general public to understand how various forms of capital rise and fall, and how the overall growth in the national capital helps to ensure the country's continued (and long-term) prosperity. Given the importance of Norway's oil industry to its national economy, the framework also creates a clear indication of how its natural capital (i.e. oil and gas) is being converted into other forms of capital and so contributing to the long-term wealth of the country.

Sustainable Prosperity believes that Canada could benefit greatly from the use of such a framework. Canadians would better understand the components of our national wealth, and how each of these contributes to our overall prosperity. The framework, and its use by policy makers in documents like the federal budget, would be a very useful tool in helping to explain how economic, environmental, or social policies relate to the enhancement of our national capital; and so help in increasing confidence in the role of public policy in building prosperity for Canadians now and in the future.¹⁰⁷

Contact

Andrew Van Iterson/Green Budget Coalition avaniterson@naturecanada.ca 613.562.3447 EXT 243

¹⁰⁷ Sustainable Prosperity, 12 August 2011, *Submission Brief to Finance Committee's pre-budget consultations*.