Environment and Climate Change

ALTERNATIVE FEDERAL BUDGET 2017 / ENVIRONMENT AND CLIMATE CHANGE

HIGH STAKES

- Climate change threatens the prosperity and well-being of all Canadians.
- The climate policy ambition of Canada's federal and provincial governments does not match the ambition of their climate targets.
- Clean energy presents an opportunity to reduce emissions while growing the economy.
- The international community has committed to ambitious climate action, although each country must do more to pull its weight.

CLEAR CHOICES

- Remove all direct and indirect subsidies for fossil fuel exploration, development, and transportation.
- Enforce a stringent national carbon pricing standard.
- Contribute Canada's fair share of global climate financing.
- Finance new renewable energy generation and energy efficiency improvements.

POLICYALTERNATIVES.CA/AFB2017 #AFB2017

Background

Reducing the amount of greenhouse gases (GHGs) we emit into the atmosphere is central to mitigating the worst effects of climate change. Canada has committed to deep GHG emission reductions in principle, but without ambitious domestic policy action Canada will continue to miss these targets. Canada must commit to implementing a comprehensive domestic climate action plan commensurate with its global ambitions for climate change mitigation and adaptation.

The Pan-Canadian Framework on Clean Growth and Climate Change, announced by the government in December, is an unprecedented step forward insofar as it commits the federal and (most) provincial governments to a unified climate strategy for the first time. However, the policies outlined in the framework do not put Canada on a path to meeting its medium-term GHG emission reduction target of 30% below 2005 levels by 2030. To make matters worse, that modest target — a hangover from the previous Conservative government — does not reduce Canada's emissions as far as climate scientists say we must in order to do our part in avoiding catastrophic global climate change.

Meeting our GHG emission reduction commitments is a significant challenge, but it is also an opportunity. Among other major initiatives, achieving Canada's full renewable energy generation potential will significantly reduce emissions while spurring economic growth. Recent research demonstrates that renewable energy will be the largest source of new power generation capacity worldwide over the next five years, in part because the cost of renewable energy is now competitive with fossil fuels. The rapidly declining cost of clean technology means more wind turbines and solar panels on the ground. Any federal investment in renewable energy infrastructure will generate far more megawatts per dollar than it would have just a few years ago.

Canada has an abundance of diverse energy resources and more than enough clean energy potential to not only meet our needs but also to export clean power to an increasingly energy-hungry world. The shift to a resilient, decarbonized Canadian economy must be accelerated in 2017 to make up for lost ground. The AFB transitions toward a zero-carbon economy by supporting those energy resources that maintain a healthy environment, a stable climate, and a strong economy.

In addition to ensuring the future prosperity and well-being of Canadians, the federal government has an international responsibility to act on climate change. Under the December 2009 Copenhagen Accord, developed countries promised to provide three years of "fast start" climate financing with the end goal of mobilizing US$100 billion per year by 2020 to help developing countries respond to climate change. Canada's contribution to global climate finance is critical not only to support developing countries' mitigation and adaptation efforts, but also to show leadership and build trust in its international negotiations.

Climate change is a global collective action problem, so international trust and cooperation is essential for long-term success. It is promising that world leaders recognize the need for ambitious climate action. The Paris Agreement aspires to a global warming target of just 1.5 degrees Celsius above pre-industrial levels (with a firm target of two degrees), which would give the world a reasonable chance of avoiding catastrophic climate change.

However, missing from the Paris Agreement is a coherent framework that clearly states a peak year for emissions, a target date for a 100% renewable economy, or a carbon budget (i.e., a total amount of carbon we can "safely" use before exceeding the 1.5 degree threshold). Taken together, the GHG emission reduction targets submitted by each country, if met, would put the world on track for a temperature increase of three degrees Celsius or more by the end of the century.

AFB Actions

The AFB plan puts Canada on course to 100% renewable energy generation within 35 years (by 2050), which will help ensure Canada meets its national greenhouse gas reduction targets.

Action: Remove all federal government direct spending and production subsidies on carbon.

Over five years, all remaining federal tax credits, production subsidies, direct federal spending, and public financing provided for fossil fuels will be eliminated. This will save the government $1.5 billion annually by phasing-out the following measures:

- The Accelerated Capital Cost Allowance (ACCA) provided to liquefied natural gas projects ($9 million per year);
- Flow-through share deductions available to investors in coal, oil, and gas projects ($133 million per year);
- Exploration limited partnerships (amount unknown);
- Canadian Exploration Expenses (CEE) for coal mining ($148 million a year);
- Canadian Development Expenses (CDE) for oil and gas well or mining development ($1.018 billion per year);
- Canadian oil and gas property expenses (COPGE), which allow companies to claim 10% of the costs of acquiring oil and gas wells and rights ($36 million a year);
- Duty exemptions for imports of mobile offshore drilling units in the Atlantic and Arctic; and
- The Foreign Resource Expense (FRE) and Foreign Exploration and Development Expense (FEDE).

Action: Enforce a strong, harmonized carbon price in all Canadian jurisdictions.

A broad, economy-wide carbon price will help drive GHG emission reductions at the lowest cost. Although it is not, on its own, *sufficient* to meet Canada's climate goals, carbon pricing is the most *efficient* policy tool for reducing GHG emissions. Carbon pricing regimes are currently in place in British Columbia (since 2008), Quebec (2013), Ontario (2017), and Alberta (2017), with several other provinces promising to implement their own policies this year.

The new pan-Canadian climate framework includes a minimum national carbon price, which means all jurisdictions must implement a carbon tax or cap-and-trade system by 2018. This is certainly progress, but there are elements of the plan that should be stronger and others that require greater clarity — issues the AFB plan addresses.

First, a $10/tonne carbon price starting in 2018 means it will take many years before the carbon price starts to create significant emission reductions. Second, the carbon price floor ramps up by $10/tonne per year but only until 2022. In the absence of a plan to increase the carbon tax until 2030 or beyond, the federal government will have to be very aggressive with complementary policies — regulations, standards, and spending programs — to fill the gap and meet or beat the existing 2030 target.

In the AFB plan, the government creates a stronger national carbon pricing standard that enforces a common set of principles across provincial and territorial carbon pricing regimes. First, the new standard will require a stringent carbon price of $30/tonne by January 1, 2018, increasing by $10/tonne per year until 2030. The price must be applied broadly with no industrial sector exempt. Second, all carbon pricing revenues will be returned to provinces and territories, as in the current framework, but a portion of revenues from all carbon pricing regimes is redistributed to those most affected by the transition off fossil fuels. A portion of all carbon revenues will be allocated to help low-income families affected by energy poverty; to provide just transition plans and retraining for workers in the industries being phased-out; and to invest in clean technologies, energy efficiency programs, and adaptation measures.

A harmonized carbon price of at least $50/tonne of CO_2e (carbon dioxide equivalent) by 2020 will be enforced in all Canadian jurisdictions, thus providing all Canadian households and businesses in all sectors of the economy with the same incentive to reduce GHG emissions and switch to low-carbon energy sources (see the AFB Taxation chapter for more details). To address the potential competitiveness impacts on emissions-intensive and trade-exposed industries (e.g., steel, cement), the feasibility of border carbon adjustments, or other measures to level the playing field with international competitors not subject to a carbon price, will be studied.

Action: Contribute Canada's fair share of global climate financing.

Developing countries face significant challenges to reducing their emissions and are already suffering the greatest losses and damages due to climate change. Canada has committed to providing a total of $2.65 billion in climate financing by 2021, but that does not go far enough to support adaptation and mitigation activities in developing countries. The AFB raises that financing commitment to $1 billion per year. This will help less developed countries reduce their dependence on fossil fuels while building climate resilience. Reductions in GHG emissions are often much more efficiently accomplished in developing countries on a dollar-for-dollar basis compared to more developed economies, as GHG reductions are often possible with less technology and at a lower cost.

Action: Achieve Canada's full renewable energy generation potential and improve energy efficiency for Canadian homes.

The AFB renews funding of $1 billion annually to Natural Resources Canada for the Clean Energy Fund to finance renewable energy demonstration projects and fund renewable energy research, deployment, and transmission across the country. Funding for clean electricity generation, interconnection of provincial electricity grids, energy storage, the electrification of end uses, and community-scale renewable energy projects will grow the middle class, provide meaningful outcomes to benefit First Nation communities, strengthen Canada's economy, and make significant progress toward achieving Canada's GHG emission reduction targets.

The AFB plan seizes the opportunity to fund research organizations and initiatives across the country to make optimal use of Canada's diverse and abundant clean energy resources. These investments could support, among other possibilities, the study of solar power in Alberta, energy storage in Saskatchewan, and geothermal energy in British Columbia. Investing in renewable energy at the local level would not only help reduce Canada's greenhouse gas emissions, but also provide jobs and investment opportunities for Canadians in remote areas, and assist in the phase-out of fossil fuel–based electricity generation.

The AFB supports community-scale renewable energy projects by expanding access to federal grants for demonstration projects. The City of Vancouver's Neighbourhood Energy Utility provides a positive example and a useful model for federal-supported community energy initiatives. Low-carbon district energy in dense urban areas is just one area with great potential for emissions reductions paired with inclusive growth. In instances where funds can be directed to off-grid communities, renewable energy can reduce GHG emissions by significantly reducing the need to regularly burn diesel for power.

To complement small-scale renewable energy projects and leverage the growth of renewable energy in Canada, the AFB also invests in enhancing the interconnection of provincial electricity grids. Allowing responsibly developed hydropower resources in British Columbia and Manitoba to support a transition away from coal power in Alberta and Saskatchewan, for example, would accelerate the reduction of Canada's total GHG emissions, enhance economic productivity in the exporting provinces, and provide substantial public health and environmental benefits for hydroelectricity importers. Building and maintaining the infrastructure needed to support this exchange of electricity would create jobs, expand utilities' access to diverse energy markets, and enhance the security and sustainability of Canada's energy supply.

In addition to expanding the clean energy supply, the AFB helps reduce domestic energy demand through efficiency initiatives, allocating $400 million per year to re-establish an energy efficiency home retrofit program (modelled on the former ecoENERGY retrofit program). The program will initially prioritize northern communities and low-income housing and then expand to include multi-unit buildings and older structures. Re-establishing such a program will create jobs, reduce GHG emissions, and put money back into the pockets of Canadians — both at the time of reimbursement for renovations and for years to come as they reduce their energy consumption.

Action: Finance strategic, nationwide, multi-year conservation efforts in the following three areas:[1]

- Terrestrial protected areas, by expanding and better protecting our terrestrial protected areas system (cost: $145 million in 2017-18 and declining);
- Working landscapes, by expanding measures to conserve unique and ecologically significant wildlife habitat and to ensure ecological connectivity (cost: $123 million in 2017-18); and
- Oceans and fisheries, by fulfilling Canada's commitments to reach and exceed international marine protection targets,

and to ensure ocean health and sustainable fisheries (cost: $146 million a year).

Notes

1 See the Green Budget Coalition's *Recommendations for Budget 2017*, pages 24–36, for more details: http://greenbudget.ca/wp-content/uploads/2016/11/Green-Budget-Coalitions-final-Recommendations-for-Budget-2017-November-7-2016.pdf