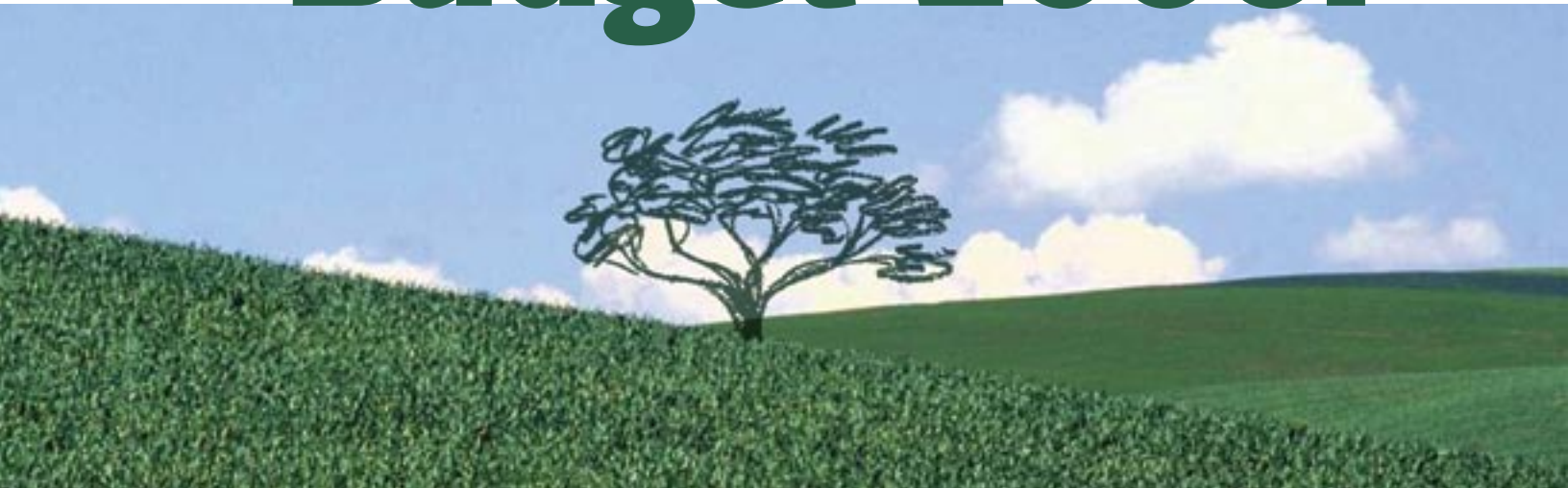


Recommendations for Budget 2006:



Leading **Opportunities**
For **OUR Environment,**
OUR Economy,
and **OUR Health**



Bird Studies Canada • Canadian Environmental Law Association • Canadian Parks and Wilderness Society
Centre for Integral Economics • David Suzuki Foundation • Ducks Unlimited Canada • Environmental Defence • Équiterre
Friends of the Earth • International Institute for Sustainable Development • Greenpeace Canada • MiningWatch Canada
Nature Canada • Nature Conservancy of Canada • Pembina Institute • Pollution Probe • Sierra Club of Canada
Sierra Legal Defence Fund • Social Investment Organization • World Wildlife Fund Canada



Executive Summary

Canada's future prosperity will be contingent upon a vibrant economy, a healthy environment, and lifelong human health. Good governance dictates that these objectives be pursued in an integrated fashion, collectively embedded in governmental decision-making. Doing so will spur innovation and increased resource efficiency, and thus strengthen Canada's international competitiveness, while preserving and restoring our environmental and social health. Furthermore, it will avoid the expensive health care and environmental remediation costs we will otherwise face due to current pollution patterns.

Canada's current environmental funding must be maintained as the basis for this future prosperity. The programs it supports play a critical role in preserving Canadians' quality of life and our economic wealth, as well as our cherished environmental heritage. They help to preserve clean air for Canadians to breathe, clean water to drink, and rich fertile soil in which to grow our food. They nurture sustainable energy supplies to power our economy and our lives, and to reduce the risk of global climate change. Furthermore, they preserve national parks and wildlife areas that not only allow a complex diversity of plants and animals to thrive, but also provide internationally renowned recreational opportunities which stimulate numerous rural economies. In essence, these programs work to preserve our natural capital.

Conservative governments have a proud legacy of environmental achievements upon which to build. Brian Mulroney is widely credited as being Canada's "greenest" prime minister ever. His Conservative governments introduced the comprehensive \$3 billion Green Plan, achieved major progress in reducing acid rain in concert with the United States, and facilitated the Montreal Protocol to phase out CFC's. Furthermore, they created key sustainable development institutions, such as the National Round Table on Environment and the Economy, and the International Institute for

Sustainable Development, which continue to develop important strategies for enduring prosperity.

Two fundamental elements of Canada's economic, environmental, and human health strategies should be the stewardship of our natural capital and the implementation of ecological fiscal reform.

Our **natural capital** includes our mineral resources, our forests, and oil and gas, our land and water resources, and the living ecosystems central to their existence. This natural capital has traditionally been the basis for our collective economic and social prosperity. However, Canada has treated its natural capital with less care than other cherished forms of capital, and continues to consume this natural capital at a much higher rate, and much less efficiently, than other peer countries.¹ This over-consumption, mismanagement and inefficient use of our natural capital is already leading to significant costs to society and in the long-term will undermine Canada's global competitiveness.

Canada needs to make rapid progress in integrating the value of environmental goods and services into its decision-making processes. The Green Budget Coalition believes a government-wide **Natural Capital Framework** would be an important means of achieving this goal. Such a framework could nurture a greater appreciation of the social and economic benefits of clean air, water, and soil, and prevent the market failures that continue to occur because these price signals are not accurately aligned.

Ecological Fiscal Reform (EFR) is "a strategy that redirects a government's taxation and expenditure programs to create an integrated set of incentives to support the shift to sustainable development."² EFR rewards environmental leaders amongst businesses and citizens, penalizes environmental "laggards", stimulates environmental innovation with global export potential, and expedites the development of an economy where

1. The OECD ranked Canada 27th for energy consumption, 29th for water consumption, and 26th for greenhouse gas emissions, out of 30 OECD countries. OECD (2004): OECD Environmental Performance Review of Canada.

2. National Round Table on the Environment and the Economy (2005): The state of the debate on the environment and the economy: economic instruments for long-term reductions in energy-based carbon emissions.

economic success brings concurrent environmental and human health benefits. EFR can improve our long-term economic prosperity by providing financial incentives to purchase goods and services which have a lower impact on environmental and human health, and by making revenue-neutral fiscal adjustments so that prices and taxes better reflect the full societal and environmental costs of specific goods and services.

The Green Budget Coalition believes the following five recommendations are the foremost budgetary opportunities to advance environmental sustainability, concurrently with substantial economic and health benefits. One of the recommendations could save over \$80 million. The other four recommendations have a modest cost, each of which could be funded through the phase-out of related tax incentives that work contrary to environmental and economic sustainability, or through the implementation of a targeted tax measure.

1. Protection from Higher Fuel Prices Through Energy Efficiency will provide Canadians with enduring protection from higher fuel prices, and reduce Canada's long-term energy dependence, by enhancing current programs for promoting and implementing energy efficiency and conservation in homes and small businesses, and by advancing green mobility. This is a prime opportunity to create simultaneous environmental, health, and financial benefits.

2. A highly leveraged **National Conservation Fund** could engage Canadians across the country in local conservation initiatives. Experience suggests that a federal leadership investment of \$250 million could be leveraged to create \$1 billion in natural capital preservation and enhancement, through matching funding from all levels of government, non-governmental organizations, community groups, and others.

3. The **Drive Clean: Company Car Tax Shift** is an ideal opportunity to advance ecological fiscal reform in Canada. It is an income tax revenue-neutral proposal, modeled on a successful program introduced in the United Kingdom, which would encourage employees to drive more fuel-efficient company vehicles by shifting some of the tax burden from green cars to gas guzzlers. Modeling suggests it would reduce Canada's greenhouse gas emissions by one Mt of CO₂ per year.

4. Strengthening CEPA Implementation recommends that greater resources be invested in effectively implementing the *Canadian Environmental Protection Act* (CEPA). CEPA is an important policy instrument that has been ineffectively implemented. Mounting exposure to toxic substances in our air and water is linked to serious threats to human health, especially for children. A Toxics Charge is a prime option for generating consistent funding for CEPA, and deserves a commitment from Environment Canada and Health Canada to build the necessary capacity.

5. Shifting Mining Incentives to Minerals Recycling highlights the most effective next steps to shift Canada to sustainable patterns of mining and mineral resource use, which are:

- Not renewing the flow-through-share program for mining exploration in Canada, which was due to expire December 31, 2005,
- Canceling the Investment Tax Credit for Exploration (ITCE), and
- Using these tax savings to increase the capacity of Environment Canada to undertake analysis of the full ecological, social and environmental costs of mining and mining exploration, and to evaluate the alternatives of metal recycling and conservation.

In addition, this document outlines the following six ongoing budgetary opportunities to which the Coalition expects to give greater emphasis in the future:

Clean Air and Climate Change:

- National Renewable Energy Expansion Program, and
- Phase Out Subsidies to Oil and Gas Industry.

Protecting Canada's Nature Capital:

- Advancing Canada's Oceans Action Plan,
- Conserving our Migratory Birds,
- Maximizing the Ecological Gifts Program, and
- Preserving Canada's Protected Areas.

Five of these six recommendations require a strategic investment, while one would save \$1.4 billion a year.

These priority and ongoing recommendations together represent a prime opportunity to make substantial progress towards genuine prosperity for current and future generations of Canadians.



The
GREEN BUDGET COALITION
 brings the collective influence and knowledge
 of Canada's national environmental
 and conservation groups
 to bear
 towards the approval and implementation
 of strategic budgetary measures
 critical to long-term environmental sustainability.

The Green Budget Coalition was founded in 1999 with the recognition that the annual federal budget is the most important Canadian environmental policy document of the year, and that the integration of environmental values into economic policy is a fundamental requirement for achieving environmental sustainability and lifelong human health. The Coalition's primary focus is the selection, development, and submission of priority recommendations for each annual federal budget, along with the advancement of ecological fiscal reform. The Coalition also promotes its environmental concerns year-round, and works with related academic, business, and non-governmental organizations.

The Green Budget Coalition comprises 20 of Canada's leading environmental and conservation groups. These member groups collectively represent over 500,000 Canadians, through their volunteers, members, and supporters. The Coalition 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.



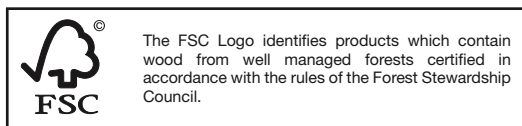




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This document is also available online at www.greenbudget.ca

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Introduction: Strategies for Achieving Genuine Prosperity

Canada's future prosperity will be contingent upon a vibrant economy, a healthy environment, and lifelong human health. Good governance dictates that these objectives be pursued in an integrated fashion, collectively embedded in governmental decision-making. Doing so will spur innovation and increased resource efficiency, and thus strengthen Canada's international competitiveness, while preserving and restoring our environmental and social health. Furthermore, it will avoid the expensive health care and environmental remediation costs we will otherwise face due to current pollution patterns.

Canada's current environmental funding must be maintained as the basis for this future prosperity. The programs it supports play a critical role in preserving Canadians' quality of life and our economic wealth, as well as our cherished environmental heritage. They help to preserve clean air for Canadians to breathe, clean water to drink, and rich fertile soil in which to grow our food. They nurture sustainable energy supplies to power our economy and our lives, and to reduce the risk of global climate change. Furthermore, they preserve national parks and wildlife areas that not only allow a complex diversity of plants and animals to thrive, but also provide internationally-renowned recreational opportunities which stimulate numerous rural economies. In essence, these programs work to preserve our natural capital.

Conservative governments have a proud legacy of environmental achievements upon which to build. Brian Mulroney is widely credited as being Canada's "greenest" prime minister ever. His Conservative governments introduced the comprehensive \$3 billion Green Plan, achieved major progress in reducing acid

rain in concert with the United States, and facilitated the Montreal Protocol to phase out CFC's. Furthermore, they created key sustainable development institutions, such as the National Round Table on Environment and the Economy, and the International Institute for Sustainable Development, which continue to develop important strategies for enduring prosperity.

Two fundamental elements of Canada's economic, environmental, and human health strategies should be the stewardship of our natural capital and the implementation of ecological fiscal reform.

Natural capital, which underpins much of Canada's economic activity, was described by a Canada West Foundation report as follows:

"Natural capital includes resources such as minerals, timber, and oil and gas, which provide the raw materials used in the production of manufactured goods. However, it also includes the land and water resources that anchor our quality of life and support economic activity such as agriculture, forestry, tourism and recreation. Furthermore, natural capital includes living ecosystems — grasslands, oceans and forests — that cleanse fouled air and water, reinvigorate soil and contribute to a predictable, stable climate."³

Canada was fortunate to be "born" rich with natural capital, and has historically relied heavily on this natural capital for our prosperity. Relative to most other countries, Canada is still rich in terms of the quantity and quality of its natural capital. However, when our performance is viewed from an environmental stress and stewardship perspective, on how well we are managing our natural capital, Canada is doing poorly.

3. Worbets, Barry (2004): Western Canada's Natural Capital — Towards a New Public Policy Framework. Canada West Foundation.

We have treated our natural capital with less care than other cherished forms of capital, such as our human and manufactured capital. Canada consumes its natural capital at a much higher rate, and much less efficiently, than other peer countries. The Organization for Economic Cooperation and Development (OECD) ranked Canada 27th for energy consumption, 29th for water consumption, and 26th for greenhouse gas emissions, out of 30 OECD countries.⁴ We are, in effect, “resource hogs”. This over-consumption, mismanagement and inefficient use of our natural capital is already leading to significant costs to society and in the long-term will undermine Canada’s global competitiveness.

Canada needs to make rapid progress in integrating the value of environmental goods and services into its decision-making processes. The Green Budget Coalition believes a government-wide Natural Capital Framework would be an important means of achieving this goal. Such a framework could nurture a greater appreciation of the social and economic benefits of clean air, water, and soil, and prevent the market failures that continue to occur because these price signals are not accurately aligned.

Ecological Fiscal Reform (EFR) is “a strategy that redirects a government’s taxation and expenditure programs to create an integrated set of incentives to support the shift to sustainable development.”⁵ EFR

rewards environmental leaders amongst businesses and citizens, penalizes environmental “laggards”, stimulates environmental innovation with global export potential, and expedites the development of an economy where economic success brings concurrent environmental and human health benefits. EFR can improve our long-term economic prosperity by providing financial incentives to purchase goods and services which have a lower impact on environmental and human health, and by making revenue-neutral fiscal adjustments so that prices and taxes better reflect the full societal and environmental costs of specific goods and services.

The Green Budget Coalition believes the following five recommendations are the foremost budgetary opportunities to advance environmental sustainability, concurrently with substantial economic and health benefits. One of the recommendations could save over \$80 million. The other four recommendations have a modest cost, each of which could be funded through the phase-out of related tax incentives that work contrary to environmental and economic sustainability, or through the implementation of a targeted tax measure.

These recommendations together represent a prime opportunity to make substantial progress towards genuine prosperity for current and future generations of Canadians.

4. OECD (2004): OECD Environmental Performance Review of Canada.

5. National Round Table on the Environment and the Economy (2005): The state of the debate on the environment and the economy: economic instruments for long-term reductions in energy-based carbon emissions.



Priority Recommendations



Protection From Higher Fuel Prices Through Energy Efficiency

Recommendation Summary

Provide Canadians with enduring protection from higher fuel prices, and reduce Canada's long-term energy dependence, by enhancing current programs for promoting and implementing energy efficiency and conservation in homes and small businesses, and by advancing green mobility.

Benefits for Canadians

- Cushion the impacts of higher prices for gasoline, home heating oil and natural gas on Canadians and vulnerable small businesses, with a long-lasting solution.
- Limit the additional cost to the economy posed by higher fossil fuel prices.
- Create new employment opportunities for Canadians.
- Achieve substantial reductions in greenhouse gas emissions in Canada.
- Reduce other air pollutant emissions, and associated human health impacts and healthcare costs.

Background and Rationale

Recent dramatic increases in the price of gasoline, home heating oil and natural gas are already causing distress among low-income and fixed-income Canadians, as well as for small businesses that are high users of fossil fuels. Some have suggested that federal excise taxes on gasoline and diesel oil be reduced in order to cushion the impact of higher fuel prices. The Green Budget Coalition believes that comprehensive energy efficiency measures together with targeted support for renewable energy sources are better responses by the federal government to address this issue.

Implementing energy efficiency measures and renewable energy sources provide employment in all parts of the country in all sectors, they are the cornerstone for a low-carbon economy, and provide many other co-benefits such as energy security and reduced air and water pollution. It is time to adopt national strategies on energy efficiency and renewable energy that transform our energy using infrastructure and markets. The energy efficiency strategy should build on the successful programs being run by the Office of Energy Efficiency, and utilize new complementary financing instruments like the Partnership Fund and Offset System.

Recommendations

The Green Budget Coalition proposes ramped up federal programs to promote and implement energy efficiency and conservation in homes and small businesses, as well as a federal green mobility program as a means to reduce fuel costs.

National Energy Efficiency Strategy

The Green Budget Coalition recommends that the federal government commit sufficient resources to develop a national energy efficiency strategy involving all levels of government, building on the current work of the Council of Energy Ministers ADM Steering Committee on Energy Efficiency, and incorporating non-government stakeholders from all sectors.

National Energy Efficient Buildings Program

The Green Budget Coalition recognizes the important measures announced October 7, 2005 to establish an EnerGuide for Low-Income Households and financial grants program, and to expand existing residential retrofit programs. We also welcome the progress being made to coordinate federal, provincial and territorial buildings efficiency programs through the Energy Efficiency/Demand-Side Management Working Group and through discussions on a national buildings efficiency road map.

We recommend further measures as follows:

- Implement the early action recommendations of the Assistant Deputy Ministers Steering Committee to update the model energy code for buildings, harmonize and collaborate on energy using equipment regulations, and establish energy efficiency programs in each province and territory for low income housing⁶ and outdoor lighting.
- Enhance the capacity of Natural Resources Canada's Office of Energy Efficiency to comprehensively update efficiency standards and codes for appliances, equipment, building components, and buildings and to strengthen integration with social marketing, taxation, and industrial innovation programs, within Natural Resources Canada and other departments.
- Establish a national residential renovator energy efficiency certification program in cooperation with private sector and community-based stakeholders. Certified renovators would be eligible to carry out recommendations from EnerGuide for Houses audits and improvements carried out as part of a municipal financed energy efficiency program.

Green Mobility

- Establish a 100,000 "Green Car" campaign providing \$4,000 to consumers as well as a \$500 incentive to dealers for the purchase of a low-emission vehicle (any car that emits less than 130 grams of GHG per km⁷). This performance-based rebate would be eliminated when Canada's regulations limiting greenhouse gas emissions from passenger vehicles come into effect in 2010. This measure would cost approximately \$450 million over 5 years.
- Apply the National Round Table on Environment and Economy's recommended criteria ([Environmental Quality in Canadian Cities: The Federal Role Recommendations 4 and 6](#)) for investments in support of urban transit and sustainable infrastructure to all allocations of federal infrastructure funding, including the portion of federal fuel tax revenues committed in the February 2005 budget.
- Amend the *Income Tax Act* to make employer-provided transit passes a non-taxable benefit. The federal government encourages the use of the private automobile by treating employer-provided parking spaces for employees as non-taxable benefit. However, employer-provided transit passes are treated as taxable benefits.



Alternative and Complementary Policies

The preceding energy efficiency and green mobility recommendations would be best financed through the phase-out of the \$1.4 billion in annual tax expenditures to the oil and gas industry. The Green Budget Coalition believes that these government expenditures are not warranted to a sector experiencing record profits and that these financial resources can now be more effectively utilized to help drive the Canadian economy towards a sustainable energy future. (*See Ongoing Recommendations, page 20, for more details.*)

An important complement to these energy efficiency initiatives would be the establishment of a National Renewable Energy Expansion Program to guide and support a long-term expansion of Canada's renewable energy production. (*See Ongoing Recommendations, page 19, for more details.*)

Energy efficient buildings could be further supported by:

- Establishing stable funding and national support for an innovative financing program for existing residential, commercial and institutional buildings, using tools such as local improvement charges and green mortgages. Use this program to work with provinces, territories and municipalities to increase the efficiency improvements in targeted buildings beyond the current 10 per cent level established in the 2002 Climate Change Plan for Canada.

6. These low income programs would build on the measures announced by the federal government October 7, 2005.

7. This emission level approximates the emissions from hybrid vehicles.

- Strengthening the delivery of EnerGuide for Houses by using community-based groups delivering rich educational programs on high efficiency equipment and renewable energy systems.

The Green Budget Coalition supports the maintenance of the current ten cents per litre gasoline fuel tax and the four cents per litre diesel fuel tax. Reductions in these fuel taxes would provide minimal benefits to consumers, and yet may stimulate demand for fossil fuels. Furthermore, any such tax reductions would reduce the funds currently being allocated to municipalities for important public transit and green infrastructure programs.

Car-sharing operations have the potential to provide car access to millions of Canadians without the capital and maintenance costs necessary for car ownership, and

to continuously introduce low-emission vehicles into frequent circulation. The federal government should investigate options for expediting widespread access to car-sharing, with particular attention to guaranteeing their car loans, and providing promotional assistance.

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National Conservation Fund

Recommendation

Make a leadership investment of \$250 million into a highly leveraged National Conservation Fund. This initial investment should be matched by all levels of government, non-governmental organizations, community groups and others by a target of 3:1. The fund would support priority conservation initiatives on the ground on a project-by-project basis, and would engage Canadians across the country. This investment could result in conservation outcomes with a value of up to \$1 billion — a strong return on taxpayers' investment.

Investment Required

\$250 million leadership investment to be leveraged by partners.

Benefits for Canadians

- Restore Canada's international leadership in nature conservation by helping fulfill existing commitments,
- Stretch Canadians' tax dollars to achieve Canada's conservation goals more efficiently and effectively on the ground,
- Engage hundreds of thousands of Canadians in conservation through partnerships with the voluntary sector,
- Contribute to a new and better relationship with Aboriginal people by supporting their full participation in conservation and land-use planning on their traditional territories,
- Create more certainty for all sectors, as a result of accelerated land use and conservation planning, and
- Develop better protection for protected areas by supporting stewardship of surrounding lands.

Background and Rationale:

*"It is only by working together — as governments, industries, communities, Aboriginal peoples and others — that we can secure our natural capital for our own and the world's benefit."*⁸

As discussed in the Introduction, the Green Budget Coalition believes a government-wide Natural Capital Framework would be an important means of integrating the value of environmental goods and services into its decision-making processes.

Implementing such an ambitious framework for the conservation of our national biological diversity will require the engagement of many groups and sectors in integrated decision-making processes at the local, regional and national levels: provincial, territorial, municipal and First Nations governments, as well as civil society, community groups, universities, private citizens and the private sector. In other words, a national goal for conserving natural capital is not the exclusive responsibility of the federal government, but requires broad participation from all sectors of Canadian society.

For example, the comprehensive integrated land-use planning exercises needed now, in advance of development in the few remaining industrially unallocated landscapes in Canada, will require substantive participation from local and Aboriginal communities, and environmental organisations. Unfortunately, many of these groups lack the resources and capacity to meaningfully engage. To ensure their equitable participation in the full range of current and future integrated decision-making, land-use planning and local stewardship initiatives, the Green Budget Coalition is requesting that the Canadian Government contribute \$250 million to establish a highly leveraged National Conservation Fund.

Many Canadian organizations and individuals have valuable skills and resources to contribute to a shared goal of nature conservation. By investing in this leadership conservation fund, the federal government would provide an incentive to bring these potential partners to the table, as well as to leverage the funds to achieve greater results. Working together is clearly more effective than “going it alone”.

Modeled in part on the existing federal-provincial infrastructure program, and supported by a similar recommendation from the National Round Table on Environment and the Economy’s 2003 report on Nature Conservation,⁹ our proposal for a leveraged National Conservation Fund will provide not only good economic value, but will encourage creativity and flexibility in conservation initiatives.

Partnership conservation programs such as the Natural Legacy 2000 initiative conserved hundreds of thousands of acres of Canada’s vast wilderness areas, and conducted research on endangered species recovery and conservation planning. Furthermore, through this program, conservation groups leveraged a federal investment of \$10 million to deliver a program worth almost \$40 million on the ground. Applying this formula to a National Conservation Fund means that \$1 billion of conservation value could be achieved from a \$250 million federal leadership investment.

A National Conservation Fund should focus support on the following key priorities:

- Supporting the participation of all interests in integrated science-based land use and conservation planning to ensure conservation decisions are made before opportunities are foreclosed by industrial development,

- Private land conservation and stewardship programs,
- Capacity building for Aboriginal communities to lead land use planning and resource management processes in their traditional territories, and
- Maintaining and restoring the ecological integrity of protected areas by supporting conservation initiatives on surrounding lands.

Alternative and Complementary Policies

Canada has international and national commitments to conservation that have yet to be fulfilled. The federal government could work independently to fulfill the commitments for which there is clear federal jurisdiction. However, this approach would be less efficient and effective than working cooperatively with all interests. A leadership investment in a highly leveraged National Conservation Fund would support a cooperative, efficient approach to conservation that would complement existing federal programs.

See *Ongoing Recommendations*, pages 21-24, for recommendations for:

- Advancing Canada’s Oceans Action Plan,
- Conserving our Migratory Birds,
- Maximizing the Ecological Gifts Program, and
- Preserving Canada’s Protected Areas.

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9. Securing Canada’s Natural Capital: A Vision for Nature Conservation in the 21st Century. National Round Table on the Environment and the Economy, 2003, 125pp. see Recommendation 19 (p. 90)



Drive Green: Company Car Tax Shift

Recommendation Summary

Implement the Green Budget Coalition's *Drive Green: Company Car Tax Shift* proposal, modeled on a successful measure introduced in the United Kingdom. This proposal would encourage employees to drive more fuel-efficient company vehicles by shifting some of the tax burden from green cars to gas guzzlers, and is designed to:

- Reduce vehicle greenhouse gas emissions by one megatonne of CO₂ per year,
- Ensure the federal government incurs no income tax revenue loss, and
- Avoid the loss of jobs in Canadian automobile assembly plants.

Revenue Change

Under this proposal the federal government incurs no income tax revenue loss.

Benefits for Canadians

- Achieve reductions in greenhouse gas emissions in Canada,
- Reduce other air pollutant emissions which cause smog and associated human health impacts,
- Reduce transportation fuel costs for businesses and employees,
- Lower domestic barriers to the introduction of economic instruments that have already been adopted in many other parts of the World, and
- Progress towards a comprehensive, integrated strategy for reducing greenhouse gas emissions in the transportation sector.

Background and Rationale

Under the Kyoto Protocol Canada has committed to a greenhouse gas (GHG) emission reduction target of 6 percent below 1990 levels. Canada's current greenhouse gas emissions are 32 percent above that target. During the same period emissions from passenger vehicles have grown by about 15 percent.

Canada will only meet its Kyoto targets by employing a full range of integrated emission reduction measures. As such, there is a growing consensus in government and the private sector that we must make greater use of market-based mechanisms, including economic instruments.

Economic Instruments

The Green Budget Coalition's *Drive Green: Company Car Tax Shift* proposal is an economic instrument that combines a financial incentive with an accompanying disincentive. Canada trails behind most other OECD countries in the use of economic instruments, particularly financial disincentives. The OECD's 2004 Environmental Performance Review of Canada states:

The government should make clear that subsidies and tax incentives are tools for use during a transition period only, and that voluntary approaches should be supplemented by more conventional use of regulations (e.g. limits on fuel consumption by cars, promotion of clean fuels) and economic instruments. [p.193]

In recognition of this shortcoming, the Government of Canada outlined, in *Budget 2005: Annex 4*, the importance of economic instruments in meeting our economic and environmental goals simultaneously. In particular, the government considered the potential for using the tax system to pursue broader government objectives (in addition to its basic role of generating revenue).

One such objective is the correction of "negative environmental externalities", which occur when an individual or company does not pay the full cost of polluting. Economic markets typically do not account for the external costs of pollution, thus understating the actual costs to society. This is characterized as a "market failure" by economists.

Under certain conditions, government may be able to correct for such market failures by using economic instruments to establish improved price signals that incorporate the true societal cost of pollution.

Many other governments have significant experience with using economic instruments, and fiscal disincentives in particular, to reduce GHG emissions. Several countries, among them Sweden, Norway, and New Zealand, have implemented GHG taxes that embed the social cost of GHG emissions into some or all activities that emit GHG emissions. In addition to these broad economic instruments, governments around the world have also implemented more targeted taxes and subsidies aimed at reducing GHG emissions from particular technologies or processes, and have made changes to tax systems with the same goal.

In the United Kingdom, a successful recent tax change aimed at reducing GHG emissions involves reform of the tax treatment of company cars. The new policy in the UK provides more favourable tax treatment for company cars that produce low GHG emissions.

Recommendation

The Green Budget Coalition proposes the introduction of a *Company Car Tax Shift*, based on this successful UK measure. This proposal would encourage employees to drive more fuel efficient company vehicles (pick-up trucks are excluded) by shifting some of the tax burden from green cars to gas guzzlers.

Under current tax rules, employees who receive company cars pay additional income tax based on the cost of the vehicle. Under this proposal, employees who drive lower emission company cars would enjoy a tax reduction below the current rate, while those who choose cars with elevated tailpipe emissions would be taxed at an increased rate.

The *Company Car Tax Shift* is an economic instrument designed to reduce greenhouse gas emissions, lower transportation costs for business and employees, protect jobs, and remain cost effective while also reducing other tailpipe emissions which cause smog.

Projected Impacts

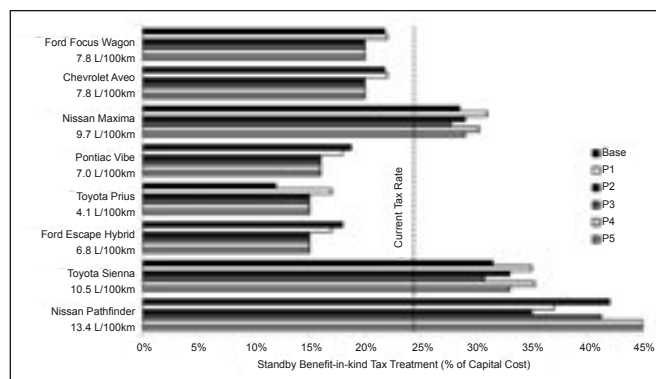
An extensive modeling study of the Company Car Tax Shift was prepared by MK Jaccard and Associates Inc., projecting the proposal’s environmental and economic impacts over the next 15 years. A “base” scenario was modeled using the parameters set out in the following table (a number of alternative policy scenarios were modeled as well).

Parameters of base policy scenario and alternative scenarios

Scenario	Lower Threshold	Upper Threshold	Lower Tax Rate	Upper Tax Rate	Rate of Increase
Base	120 g/km	360 g/km	12%	48%	1.5%/10g/km
P1	160 g/km	260 g/km	17%	37%	1%/ 5g/km
P2	160 g/km	260 g/km	15%	35%	1%/ 5g/km
P3	160 g/km	345 g/km	15%	45%	1%/ 5g/km to 24%, then 1.5%/ 10g/km
P4	160 g/km	290 g/km	15%	45%	1%/ 5g/km to 24%, then 1.5%/ 10g/km
P5	160 g/km	310 g/km	15%	45%	1%/ 5g/km

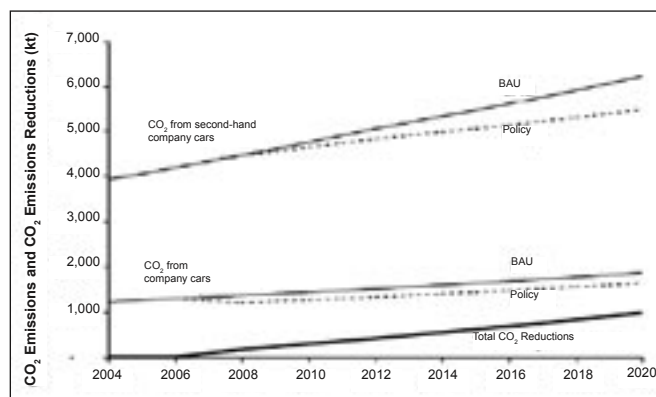
The following chart shows the tax treatment for the base case and each alternative policy scenario applied to several popular vehicle models.

Tax treatment for selected vehicle models



The impact of the change in company car tax treatment on CO₂ emissions (a greenhouse gas) is shown in the following graph. Overall, CO₂ emissions are reduced by about 0.3 Mt in 2010 and about 1.0 Mt in 2020. In the first few years following policy implementation, most CO₂ reductions result from changes in company cars, while in later years the bulk of the CO₂ reductions occur in the second-hand vehicle market, as more efficient company cars are sold as used cars.

CO₂ emissions reductions from policy implementation, 2004-2020



Overall, the study prepared by MK Jaccard and Associates Inc. shows the following results:

Greenhouse gas emission reductions

The *Company Car Tax Shift* proposal is expected to reduce GHG emissions by about 0.3 Mt of CO₂ by 2010 and by about 1.0 Mt of CO₂ annually by 2020.

Government revenue

The policy is almost revenue neutral with respect to federal government income tax revenue. There is a projected revenue surplus of \$5 million in 2010 and \$6 million in 2020. Overall, the cost of the policy was calculated at \$38 per tonne of CO₂ reduced by 2020. This loss is associated with reductions in federal fuel excise tax revenue, which is an inevitable impact of any policy to reduce emissions from the passenger transport sector.

Employment

Employment in Canadian automobile manufacturing plants is expected to grow slightly slower under this proposal than under the business-as-usual scenario.

Budget 2005 criteria

Evaluation using the criteria in Budget 2005 shows that the policy is well targeted and environmentally effective for the niche market that it affects. It can be expected to improve economic efficiency since it corrects negative environmental externalities by providing improved price signals. Overall, there are minimal impacts on fairness. Finally, the policy is considered relatively simple, since it only involves changes to existing tax rates, and all institutions and mechanisms required to carry out the policy are already in existence.

Alternative and Complementary Policies

The government could also introduce regulations for the effective reduction of greenhouse gases in the transportation sector.

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Strengthening CEPA Implementation

Recommendation Summary

Invest greater resources to effectively implement the *Canadian Environmental Protection Act* (CEPA). CEPA is an important policy instrument that has been ineffectively implemented. Mounting exposure to toxic substances in our air and water is linked to serious threats to human health, especially for children. A Toxics Charge is a prime option for generating consistent funding for CEPA, and deserves a commitment from Environment Canada and Health Canada to build the necessary capacity.

Benefits for Canadians

- Promote pollution prevention,
- Contribute to human health protection and reduce public health costs,
- Create employment in research, development and implementation of better emission control and best industrial practices, and
- Lower the cost to government, communities, and industry of expensive cleanup and remediation, and of lost ecological services such as water quality.

Background and Rationale

The *Canadian Environmental Protection Act* is not working. Despite the federal government's commitment to safeguarding Canadians from toxics through pollution prevention, regulatory action has yet to be taken in connection with most substances declared toxic under CEPA.

The capacity of the federal government to deliver its toxic substance control mandate as required by law is in a deficit situation and continues to decline. Even if Environment Canada meets its deadline of fall 2006 to complete the first step in the risk assessment of existing toxic chemicals, there are no timelines, and no plan, subsequent to this date for those most toxic substances to be listed for virtual elimination under CEPA. Worse still,

new chemicals are being introduced to the market on a constant basis. For most of these, testing to determine impacts on human health and the environment is non-existent or grossly inadequate.

In order for Canada to get off this "Toxics Treadmill", the federal government urgently needs an enhanced capacity to measure, understand and take control of actions regarding the presence of toxic chemicals in the environment and in all phases of the life-cycle of consumer products. In accordance with worldwide trends in business and environmental management, the government needs to move its attention "up the pipe" and devote more resources to product life-cycle assessment and management approaches.

Canadian industry continues to generate enormous quantities of toxic substances as waste. Releases and transfers (not including recycling) of substances declared toxic for the purposes of CEPA and reported under the National Pollutant Release Inventory (NPRI) in 2002, include:

- More than **45,766 tonnes** of heavy metals;
- **811,701 kilograms** of Polyaromatic Hydrocarbons (PAHs);
- **452,181 kilograms** of hexachlorobenzene;
- **263.226 g TEQ** of dioxins and furans; and
- **39,960 tonnes** of CEPA toxic substances.

In addition, releases of criteria air contaminants, such as carbon monoxide, sulphur dioxide, nitrogen oxides, particulate matter and volatile organic compounds have major impacts on the health of Canadians. Reported industrial releases of these substances under NPRI in 2002 included:

- **953,721 tonnes** of carbon monoxide;
- **576,739 tonnes** of nitrogen oxides;
- **61,150 tonnes** of PM2.5;
- **108,889 tonnes** of PM10;
- **1,978,934 tonnes** of sulphur dioxide;

- **227,900 tonnes** of total particulate matter; and
- **267,553 tonnes** of volatile organic compounds.

Mining operations are not required to report releases and transfers of toxic substances under the NPRI. As a result, releases and transfers of CEPA toxic substances from mining operations are not included in these estimates. The exemptions from reporting for the coal and metal mining sectors were lifted from the US Toxics Release Inventory (TRI) beginning in 1998. As a result, the metal mining sector in the US emerged as the largest source of total on- and off-site disposal and other releases of TRI substances, constituting 27 per cent of all releases reported to the TRI in 2002.

Pollution Charges in Other Jurisdictions

Other countries have successfully used pollution tax measures to reduce toxic emissions. For instance, the US Superfund Polluter Pays Taxes included:

- A crude oil tax (9.7 cents per barrel tax on purchase);
- A chemical feedstock tax on the purchase of 42 toxic chemicals ranging from \$0.22 to \$10.13 per ton;
- A toxic chemicals importation tax on the importation of 113 dangerous products made from chemicals covered by the feedstock tax; and
- A corporate environmental income tax on the profits of large corporations (rate of 0.12 per cent on taxable profits in excess of \$2 million; \$12 per \$10,000).

In addition, many U.S. states, including Delaware, Massachusetts, New Jersey and Rhode Island now tax various toxic substances to fund pollution prevention programs and the remediation of contaminated sites.

Recommendation

Increased resources should be directed to the following activities:

- Program administration/enforcement,
- Implementation of CEPA, in particular CEPA Part V, including the Domestic Substances List screening process for Persistence, Bioaccumulation and Toxicity characteristics and subsequent toxic substance management measures,
- Measuring, monitoring and understanding the presence of toxics in our environment, and
- Pollution Prevention Research Fund with a focus on product life cycle.

The government should also review and remove the exemptions for the mining sector from reporting to the National Pollutant Release Inventory. Given the scale of the potential contributions to releases and transfers of hazardous pollutants, criteria air contaminants and greenhouse gases, the exemption for the mining sector constitutes a major gap in the NPRI reporting structure - particularly with respect to on-site land releases, which may ultimately result in water pollution.

Options for a Toxics Charge for Canada

Canada could establish a toxics charge on the release and transfer of toxic pollutants designated under CEPA. Such a charge should also be applied to criteria air contaminants that have been added to the CEPA list of toxic substances, including nitrogen oxides, PM2.5 and PM10, and volatile organic compounds, and be weighted based on the level of toxicity for each substance.

This charge would create an incentive to reduce the use, generation and release of the specific pollutants. The net result would be a constant incentive for pollution prevention on a much wider basis than the federal government's current regulation. A comprehensive toxics charge would also avoid situations where targeted chemicals are replaced by more damaging ones not subject to a charge.

Alternative and Complementary Policies

The government needs to enhance its capacity to regulate where appropriate and to take complementary action where other non-regulatory approaches are warranted. The federal government maintains that it is committed to safeguarding Canadians from toxics through pollution prevention. However, regulatory action has yet to be taken in connection with most substances declared toxic under CEPA.

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Shifting Mining Incentives to Minerals Recycling

Recommendation

Advance Canada on the path to more efficient, sustainable resource use by:

- Not renewing the Flow-Through-Share Program for mining exploration in Canada, which was due to expire December 31, 2005,
- Canceling the Investment Tax Credit for Exploration (ITCE), and
- Using these tax savings to increase the capacity of Environment Canada to undertake analysis of the full ecological, social and environmental costs of mining and mining exploration, and to evaluate the alternatives of metal recycling and conservation.

Tax Expenditure Implications

Annual resultant savings would be about \$38 million annually from ending the focused flow-through share program, and about \$39 million annually from canceling the ITCE. Savings would, in fact, likely be higher due to increases in commodity prices and exploration activities since these estimates were made, with those increased savings moderated by reductions in exploration activities.

These funds could be much better utilized to improve both Environment Canada's inadequate capacity to analyze the ecological, social and cultural costs of existing and proposed mineral developments, and Natural Resources Canada's metals recycling program (which currently has one staff person).

Benefits for Canadians

- Protection of Canada's valued ecosystems from mining exploration of questionable merit,
- Reduce subsidies to speculative investments in a volatile commodity,
- Reduce our reliance on boom-and-bust economics,

Through increased reliance on metals recycling:

- Reduce the depletion of Canada's Natural Capital (mineral resources, energy and water),
- Reduce Canada's greenhouse gas emissions, and
- Provide more stable employment opportunities.

Background and Rationale

Mining exploration in Canada has caused substantial damage to Canada's fragile ecosystems, and local First Nations and other communities, and similarly prevented other more sustainable economic opportunities, yet the federal government continues to subsidize this mining exploration. These subsidies serve to exacerbate environmental problems by financing otherwise non-commercially viable exploration, and by thus expediting our arrival at the limits of our natural resource supplies.

Flow-Through Share Program

The 'super' flow-through program, a tax incentive for "grassroots" mineral exploration, was introduced in October 2000 as a temporary measure to help moderate the effect of a global downturn in mineral exploration in the 1990s. The original three-year program has been extended twice since its inception, both for additional one-year periods. The program was due to come to an end on December 31, 2005. The program enables mining companies to allocate a portion of their exploration losses to investors to use as a loss on their tax returns. There is considerable pressure from the Prospectors and Developers Association to renew the Flow Through Share program.

Investment Tax Credit for Exploration (ITCE)

The federal Investment Tax Credit for Exploration further enables investors to receive a 10% credit for their investment in a mineral exploration project on previously undeveloped land. The ITCE was institutionalized with Bill C-48 at the end of 2004.

The ITCE enriches speculative investors by reducing the after-tax cost of a \$1000 investment in exploration in Canada to as little as \$207 in Quebec, and \$333 in BC.¹⁰ In addition to this federal program, most provinces have their own flow-through share and tax incentive programs for mines in remote areas.

Evaluating Focused Flow-Through Shares

The benefits of the Focused Flow-Through Share (FTS) program are usually evaluated on the basis of: the amount of money raised; increases in exploration gross expenditures; and the discovery of new mineral deposits. Such analyses ignore important effects such as the costs to affected ecosystems, loss of services provided by nature, lost economic opportunity costs, and costs to the First Nations and other local communities.

Increased commodity prices in the past two years have provided an unprecedented stimulus to mineral exploration in Canada. There is no doubt that this has resulted in increases in all the indicators currently used to evaluate the FTS program. However, the unmeasured costs to communities and ecosystems have also been rising. Two examples illustrate the problem:

Fortune Minerals, a junior mining company registered in Ontario has made four private placements of FTS to its investors.¹¹ The company proposes to mine anthracite coal in the "Sacred Headwaters" of the Tahltan people: the headwaters of five major rivers in British Columbia. Elders from the community have blockaded their exploration activities, arguing that the rivers need to be protected and their cultural heritage is at risk. The Tahltans are faced with five major new mining projects on their lands as well as infrastructure to support them all at the same time.

In northern Ontario, in 2005, seven First Nations have recently issued a mining moratorium to stop the exploration activities of Superior Diamonds and other mining companies on their traditional territories. They say the company is infringing their rights and damaging their land. The company's activities are jeopardizing access for all mining interests in the region. On March 16,

2005, Superior Diamonds Inc.'s two private placements raised total gross proceeds of \$2,659,530. Subscribers in the brokered private placement purchased 3,604,060 flow-through shares at 50 cents per share and 1,461,111 non-flow-through units at 45 cents per unit for proceeds of \$2,459,530.

It is clear that the FTS offerings are enabling these junior companies to sustain investor interest in their operations. However, it is unclear whether these benefits outweigh the costs being imposed on society and the environment.

The case for metals recycling over extraction of virgin materials

In a study published on January 17, 2006 in the Proceedings of the National Academy of Sciences, Yale University researchers Robert Gordon, Thomas Graedel and Marlen Bertram wrote that their research had determined that supplies of copper, zinc and other metals cannot meet the needs of the global population forever, even with the full extraction of metals from the Earth's crust and extensive recycling programs, and that depletion will be an immediate problem for some precious metals like platinum.¹²

A 1999 study by the Institute for Fiscal Studies (U.K.)¹³ concluded that Canada's tax system "significantly favours the use of virgin materials rather than recycled materials in the case of metal and glass products". This is exemplified by corporate income and mining tax incentives at the exploration and extraction stages of production, as well as by provincial sales taxes on capital and on business inputs, which are borne more heavily by scrap firms than by resource and manufacturing firms.

Another report, prepared in 1995 for the Canadian Council of Ministers of Environment (CCME), found taxation by the federal and provincial governments demonstrated a bias against recycling.¹⁴ The authors estimated that, for Ontario, recycled materials should be taxed at a rate 4.5% lower than at present in order to be taxed at the same rate as virgin minerals. Furthermore,

10. Natural Resources Canada March 2003 presentation to World Bank Extractive Industries Review, p. 28.

11. They have had at least four FTS issuances to date:

November 10, 2005: 833,334 flow-through common shares to raise gross proceeds of approximately \$3-million
September 15, 2003: 899,930 shares @ \$0.67
August 5, 2003, 375,000 shares @ \$0.67
March 10, 2003: 560,572 shares @ \$0.70

12. National Science Foundation <http://www.physorg.com/printnews.php?newsid=9971>

13. K. Scharf, "Tax Incentives for Extraction and Recycling of Basic Materials in Canada", *Fiscal Studies*, 20(4), pp 451-477, 1999.

14. EMCBC publication, "Protecting the Future through Action Today", (30/08/2004).

to achieve optimal waste management the taxation rate for recycled materials would have to be 13 percentage points less than virgin materials.

The energy savings realized when metals are produced from secondary sources versus primary sources are: zinc: 60%; steel: 74%; lead: 76%; copper: 85%; and aluminum: 95%. Additionally, the reduction in pollution realized from recycling can be immense. For aluminum, there is a 79% material conservation, a 95% reduction in emissions and a 97% reduction of effluents through recycling. For steel, one sees a 90% virgin materials savings, an 86% emissions reduction, a 40% effluent reduction, a 76% water pollution reduction and a 97% mining waste reduction through recycling.

The Canadian metal recycling sector salvages an estimated 10 million tonnes of metal each year, valued at roughly \$3 billion. Industry sources indicate that recycling creates many more jobs than land filling and waste disposal.

A 2001 OECD analysis recommended that, “the preferential tax treatment of conventional resource sectors, such as oil and gas, and minerals and metals should be eliminated” on both environmental and economic grounds.¹⁵ It has been estimated that, to achieve sustainability worldwide, the material intensity of each unit of economic output will need to be reduced by 50% and, in industrial countries like Canada, it will have to fall by factors of between 4 and 10.¹⁶

The scale of the environmental and social impacts of mining has been central to arguments regarding the need to reduce the consumption of newly extracted materials. The current rates of materials consumption are considered unsustainable, not so much due to shortages of materials themselves, but rather due to the extent of the environmental and social costs associated with their extraction and processing.¹⁷

Mineral and metal extraction leaves an enormously damaging and lasting environmental footprint, and the consequences of mining accidents, such as tailings dam failures, are potentially calamitous.¹⁸ In addition to major disturbances of the landscape, the destruction of fish, wildlife, and plant habitat, and the disruption of surface and ground water flows, mining, and metal mining in particular, generates enormous quantities of waste.

Even when mines are operating, employment and income potential are likely to be relatively short term. This trend is a result of a decline in the average operating period for new mines, and the technological developments that are constantly displacing workers. Most new mines only last 15 years or less.¹⁹

Mining also results in socio-economic costs including: social and health impacts; work injuries; boom and bust economic cycles; the destruction of indigenous livelihoods; and dramatic changes in regional cultures.²⁰

Given these factors, the federal government must provide the resources to investigate whether the investment of public funds to support primary resource extraction over recycling and conservation measures reflects good business or environmental practice. Substantial risks and costs are currently assumed by the ecosystems and communities that are disrupted by the search for new deposits.

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15. A. Yourc'h (22 March 2001): Encouraging Environmentally Sustainable Growth in Canada. OECD Economics Department Working Paper No. 290. ECO/WKP(2001)16, p. 40.

16. The need for a 90% reduction in material intensity in OECD countries was acknowledged in the October 1994 Carnoules Declaration, endorsed by prominent individuals including the former executive directors of the Business Council for Sustainable Development and the Brundtland Commission (in T. Green, *Lasting Benefits from Beneath the Earth*, 1998:69). See also G. Gardner and P. Sampat, *Mind over Matter: Recasting the Role of Materials in Our Lives*, Worldwatch Paper 144, (Washington: Worldwatch Institute, 1998); J. Young and Aaron Sachs, *The Next Efficiency Revolution: Creating a Sustainable Materials Economy*, Worldwatch Paper 121 (Washington: Worldwatch Institute, 1994). Fresenius Environmental Bulletin (special edition) on The Material Intensity Per Unit of Service (MIPS) project of the Wuppertal Institute für Klima, Umwelt und Energie in Wuppertal, Germany, Vol.2, No.8, 1993.

17. J.E. Young, *Mining the Earth*, Worldwatch Paper 109, (Washington: Worldwatch Institute, 1992).

18. As illustrated at probeinternational.org;

the March 1996 Marcopper tailings dam failure in the Philippines (for a detailed discussion of this incident see http://www.miningwatch.ca/publications/Marinduque_backgnd.html), and April 1998 Boliden tailings dam failure in Spain (for a detailed discussion of this incident see <http://www.antenna.nl/wise/uranium/mdaff.html>). On the potential for mining tailings dam collapses in Canada, particularly in the context of climate change, see P.E. Perkins, “Climate Change and the Canadian North: Ecological Economic Implications Related to Mining,” Paper presented to conference of Canadian Society for Ecological Economics, October 1997.

19. Pembina Institute (2002): *Looking Beneath the Surface*.

20. See *Mining and Communities: a Literature Review and Annotated bibliography* (Ottawa: MiningWatch Canada, 2000)



Ongoing Recommendations

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National Renewable Energy Expansion Program

Recommendation

Canada should establish a National Renewable Energy Expansion Program to guide and support a long-term expansion of Canada's renewable energy production. Renewable energy sources have the technical potential to meet half of Canada's long-term electricity needs, to stimulate and to take advantage of tremendous international and domestic market opportunities, and to play an important role in assisting Canadians to reduce their reliance on increasingly costly fossil fuels. The Vision for a Low-Impact Renewable Energy Future for Canada, developed by The Clean Air Renewable Energy Coalition (CARE — www.cleanairrenewableenergycoalition.com), whose recommendations have already been adopted in part, merits strong consideration as a basis for such a Program.

The priority steps should be:

- Expanding support for low-impact renewable electricity generation in Canada from the current 4,000 MW (WPPI) and 1,500 MW (RPPI) to a total of 12,000 MW by 2013. A CARE analysis suggests such an incentive would support 6,500 MW of new capacity at a cost of 2.1 billion dollars, between 2009-2014.
- Establishing a 100,000 Solar Roofs Program (Solar PV). An additional 200 MW of PV systems could be installed across Canada, over a 10-year period, thus encouraging direct engagement by residential owners in managing their own electricity costs. CARE has proposed two possible mechanisms to implement such a program: a buy-down program and

feed-in tariffs. This cost of this program is estimated at \$416-460 million over a period of ten years or more.

- Make commitments to purchase 20% of all the federal government's heating needs from "green heat" renewable sources of energy (solar water heaters, solar walls, biomass, and earth energy).
- Make commitments to set aside at least 10% of the government's purchase of green power from solar PV sources.
- Establish a stable long-term program to support the establishment of a solar thermal industry in Canada, including infrastructure development and training, and incentives for commercial and residential users.
- Remove all restrictions on the types of solar technologies and applications covered by the Canadian Renewable Energy and Conservation Expense Class 43.1 tax measures.

Total Investment

\$2.6 Billion (over 10 or more years)

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Phase Out Subsidies to Oil and Gas Industry

Recommendation:

Phase out the \$1.4 billion in annual federal tax expenditures to the oil and gas industry, starting in Budget 2006.

Background and Rationale²²:

Recent dramatic increases in the price of gasoline, home heating oil and natural gas have caused distress among low-income and fixed-income Canadians, as well as for small businesses that are high users of fossil fuels. At the same time, oil and gas companies that receive large federal subsidies are reaping enormous windfall profits from these increases in fuel prices. For example, net earnings in the second quarter of 2005 were \$539 million for Imperial Oil, \$526 million for Shell Canada and \$345 million for PetroCanada.

Estimated federal expenditures to the oil and gas sector are \$1.4 billion per year, based on the latest available data. Most of the subsidies are in the form of tax breaks under Canada's *Income Tax Act*. In the period 1996-2002, these tax subsidies amounted to a staggering \$8 billion. According to the Auditor General's office, the fossil fuel sector has received more than \$40 billion in federal subsidies over the course of the last three decades.

One particularly egregious subsidy is the accelerated capital cost allowance for tar sands developments. Capital cost allowance rates generally reflect the useful life of the assets being depreciated. Tar sands projects

qualify for significantly accelerated write-offs resulting in a tax expenditure of \$484 million between 1996 and 2002. These tax expenditures are likely to grow dramatically given the numerous multi-billion dollar tar sands projects that have recently been proposed.

Since 1997 when Canada first agreed to its Kyoto target, the federal government has been spending \$2 on oil and gas industry tax subsidies — and indirectly promoting greenhouse gas emissions — for every \$1 it has spent on reaching its Kyoto goal. Between 1990 and 2003 Canada's greenhouse gas emissions increased by 24%, with a significant part of the increase attributable to the oil and gas industry.

The Green Budget Coalition believes that these government expenditures are not warranted to a sector experiencing record profits and that these financial resources can now be more effectively utilized to help drive the Canadian economy towards a sustainable energy future.

Total savings
\$1.4 billion annually

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22. Most of this data can be found in: A. Taylor, M. Bramley, & M. Whitfield (31 January 2005): Government Spending on Canada's Oil and Gas Industry: Undermining Canada's Kyoto Commitment. Pembina Institute.



Advancing Canada's Oceans Action Plan

Recommendation

Make a \$600 million investment in the Oceans Action Plan in 2007, over 5 years (2007-2011), in order to complete a national system of marine protected areas and to develop and implement integrated oceans management plans for Canada's oceans.

Background and Rationale

The health of our oceans is amongst the most pressing sustainability challenges facing Canada today. As recognized in the recent report from the Commissioner of the Environment and Sustainable Development, while Canada has world-class oceans legislation, little or no progress has been made to date in implementing this legislation.

Since the Government passed the Ocean Act in 1996, our total ocean area under protection has only increased from 0.43% to 0.51%. In contrast, during that same time period, Australia increased the amount of their oceans under protection from 4.5% to 7.5%.

In the 2005 fiscal year, Canada's Oceans Strategy moved from an unfunded initiative to an under funded initiative with an allocation of a modest \$28 million dollars over two years for Phase 1 of the Oceans Action Plan. Substantively more funding will be needed in the future if the Oceans Action Plan is to deliver on its crosscutting environmental, sovereignty, sustainable development and economic objectives.

Total Investment

\$600 Million (over 5 years)

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Conserving our Migratory Birds

Recommendation

Invest an additional \$75 million annually in migratory bird conservation through programs managed by Environment Canada and by its partners, who contribute complementary skills, resources and opportunities.

Background and Rationale

Birds represent not only an important part of our environment in their own right but are a cost effective tool to monitor the health of our entire environment.

The decline of birds in Canada represents a literal ‘canary in the coal mine’ for our environment. For many reasons, birds are effective bioindicators of the health of their, and our, physical, chemical and biological environment. They occur broadly in Canada and beyond our borders, and thus integrate the effect of environmental stressors. Yet 25% of the 350 species of birds that occur regularly in Canada are in decline or are otherwise of concern.

The federal government’s recognized migratory bird responsibilities, which derive from the Migratory Birds Convention signed with the United States Government, mean these concerns should be incorporated into all policies, programs and actions affecting nature in Canada, for terrestrial, freshwater and marine areas. However, Canada’s commitment to migratory bird science and conservation has been eroding over the past 30 years, notwithstanding some notable exceptions (investments in the North American Waterfowl Management Plan which helped lead to the continent’s largest combined conservation effort, and in birds at risk through the *Species At Risk Act*).

Bird conservation programs need to be enhanced to help those species that are in decline before they are put on the critical list. Once species are on the critical list, they must be addressed through the onerous and expensive auspices of Species at Risk programs. Keeping common birds common is a much more effective strategy.

Canada can capitalize on the existence of broad coalitions of willing partners, with mature plans, to help advance migratory bird conservation. An important example is the North American Bird Conservation Initiative consisting of federal and provincial/territorial agencies, conservation NGOs and industry associations in Canada. The partnership extends to the United States and Mexico. Furthermore, there are tens of thousands of Canadians interested in actively supporting bird conservation through private funds and countless thousands of volunteer hours.

A reinvestment in migratory bird conservation would stimulate other important investments and contributions, and would strategically advance the conservation of Canada’s valuable and cherished nature.

Total Investment \$75 million annually

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Maximizing the Ecological Gifts Program

Recommendations:

Amend the *Income Tax Act* to better encourage gifts of ecologically significant land and easements by:

- Reducing the capital gains inclusion rate for taxable income on ecological gifts from 25 per cent to zero; and
- Recognizing all donations of ecologically significant lands as ecological gifts, including the donation of lands held as inventory, by corporations or individuals.

Background and Rationale

The Government of Canada has made strong commitments to protecting species at risk, national parks, national heritage, and to supporting stewardship on private lands. Working with landowners to protect private lands is essential to meeting these commitments. The Government of Canada has already taken some important steps to encourage private landowners to conserve their ecologically significant lands, most notably by reducing the capital gains inclusion rate for donations of certified lands and easements by 50 per cent and allowing “bargain sales” or “split receipting”.

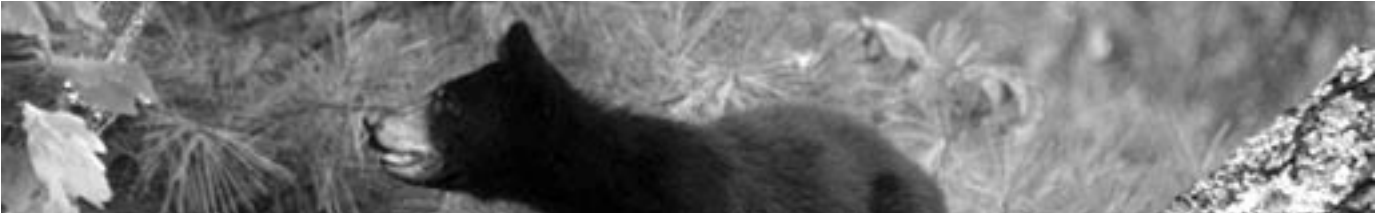
However, as important as these measures have been certain donations of ecologically significant lands still do not qualify under the Ecological Gifts program and donors are still subject to a tax penalty in the form of capitals gains tax.

Owners of ecologically significant lands have often stewarded their lands for generations and are frequently of modest financial means. The capital gain arising from the donation of their land - even at the reduced 25 per cent inclusion rate – can result in the donor exceeding the current threshold income amount, above which partial or complete claw-back of Old Age Security benefits is triggered. Furthermore, donations of ecological gifts require the same rigorous process as donations of cultural gifts (i.e., certification of value by government-appointed review board), yet the latter are completely capital gains tax exempt. Removal of capital gains tax from ecological gifts has been recommended in numerous reports dating back as early as 1994.

The disposition of land held as inventory yields a profit rather than a capital gain (because it is not a “capital asset”), one hundred per cent of which is deemed income for income tax purposes. The tax benefits of the Ecological Gifts program apply only to the capital gain associated with the gift. The Ecological Gifts program is intended to offer incentives to preserve significant ecological areas. It should, therefore, apply to all people and companies owning qualified lands regardless of how these lands are held.

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Preserving Canada's Protected Areas

Recommendation

Make a re-investment in Environment Canada's protected areas of \$175 million over the next five years, and \$35 million annually thereafter:

- \$40 million over two years to establish 10 new National Wildlife Areas (NWAs), to address urgent management issues in existing NWAs, and to update the policy and legislative framework for NWAs;
- \$135 million over the subsequent three years to establish an additional 11 NWAs, support effective participation by Aboriginal communities in related economic and tourism opportunities, and match private funds for the acquisition of adjacent ecologically significant lands;
- Thereafter, \$25 million per year in ongoing funding to protect the ecological integrity of NWAs and \$10 million per year for new NWA establishment.

Background and Rationale

The federal government's network of 51 National Wildlife Areas and 92 Migratory Bird Sanctuaries focuses on protecting Canada's most significant wildlife habitat. This network is in a state of crisis, suffering from a series of on- and off-site threats to ecological integrity. Environment Canada currently lacks the capacity to manage these protected areas, with staff, capital and operating budgets amounting to a mere \$1.9 million, less than one per cent of Canada's national parks budget.

This recommended re-investment in Environment Canada's protected areas will result in 10 new NWAs by 2008, an additional 11 NWAs by 2011, and also



provide the effective capacity to manage this protected area network. This re-investment will thus allow for the expansion of the network to include significant lands for biodiversity conservation (particularly in the north, where NWAs would support the unique role of Canada's Aboriginal communities and contribute to new partnership opportunities) and would serve to reduce the number and severity of threats to existing sites through more effective management and a stronger legislative and policy framework.

Total Investment

\$175 million (over 5 years) and, thereafter, **\$35 million annually.**

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