Budget 2017 Recommendations: Federal leadership to reduce greenhouse gas emissions in Canada

Submission by Équiterre

Executive Summary

We welcome the opportunity to submit our preliminary recommendations for Budget 2017 to support the implementation of the Government of Canada's commitments to fight climate change, phase out federal subsidies to the fossil fuel industry, enhance existing tax measures to generate more clean technology investments and support the government's review of tax expenditures and other spending to reduce poorly targeted and inefficient measures.

On April 22, 2016, Canada signed the historic Paris Agreement on its opening day at the UN headquarters in New York City, an international agreement committing countries to significant reductions in global greenhouse gas (GHG) emissions to limit global warming to less than 2˚C and to pursue efforts to limit it to 1.5˚C above preindustrial levels. We expect Canada to ratify the Paris agreement in the fall with a strong domestic climate plan. The Prime Minister and Canada's provincial and territorial premiers will release the pan-Canadian framework on climate change and clean growth in the fall, to deliver on our climate change commitment to the international community.

The Government of Canada has continued to make other significant climate and clean energy-related international commitments including signing on to the Global Carbon Pricing Leadership Coalition as well as a number of commitments on clean transportation, phasing-out production subsidies to the fossil fuel industry and committing to a clean electricity supply through the recent North American Climate, Clean Energy and Environment Partnership.

Budget 2017 is therefore critical to the implementation of those international commitments and to the successful implementation of the upcoming pan-Canadian framework on climate change and clean growth. More importantly, Budget 2017 can demonstrate federal leadership by implementing measures to reduce GHG emissions here in Canada that are within federal jurisdiction. The focus of our submission to the Finance Committee will ensure the Government of Canada maximizes GHG emission reduction from clean technology investments, from the transportation sector as well as in the Government of Canada's Phase II of infrastructure spending.

1. Phase-out of federal production subsidies to fossil fuel industry

In Paris, the Government of Canada, along with 39 other countries and major corporations, endorsed the Fossil Fuel Subsidy Reform Communiqué.[1] Supporters of this Communiqué have recognized that the elimination of fossil fuel subsidies would make a significant contribution to reducing global GHG emissions and that accelerating the reform of fossil fuel subsidies is therefore an urgent priority. The Government of Canada has a long-standing commitment to phase out production subsidies to the fossil fuel sector, starting back in 2009 at the G20 meeting. This commitment was reiterated again at the recent G7 meeting in Japan in 2016 at the North American Leaders' Summit in June 2016, where Canada, along with Mexico and the United States, committed to eliminating fossil fuel subsidies by 2025.

We welcome the federal government's recent investments to promote clean technologies through Mission Innovation, where Canada seeks to double clean energy investment to $775 million by 2020. However, policy and fiscal coherence is necessary to make the Canadian clean energy sector attractive to domestic and foreign investors, and to maximize the return on federal and provincial governments' support for the clean energy sector. As such, remaining federal subsidies to the production of oil, gas, and coal must be eliminated.

GHG emissions reduction achieved through those increased federal and provincial investments in clean energy risks being dwarfed by continued oil and gas exploration and development. There are oil, gas and liquefied natural gas projects in the application stage in Canada, with some start-up dates for these projects extending out to 2030 and beyond. The growth in GHG emissions in the oil and gas sector will continue if facilitated by governments' support for continued exploration and development.

A 2015 report by Oil Change International, the Overseas Development Institute and the International Institute for Sustainable Development estimates that Canadian federal production subsidies to the fossil fuel industry amounted to a minimum of $CAN 1.8 billion annually[2].

Delivering on this long-standing commitment requires a transparent and predictable phase-out schedule released by the Minister of Finance, thus providing certainty to investors, and to Canadians, that the Government of Canada will eliminate tax preferences to the oil, natural gas, and coal industries.
We cannot afford another 9 years of continued government support to the oil and gas industry if we are to truly begin the clean energy transition in Canada today. In light of the urgent pace and scale of the climate challenge, we call on the Government of Canada to complete this phase-out no later than 2020.

Recommendations:

- Publicly release in Budget 2017, a comprehensive list of current accelerated capital cost allowances (ACCA) and other tax preferences available to the oil, natural gas, and coal industries in Canada, including estimates of foregone tax revenues;

- Announce, in Budget 2017, a timeline for phasing out all identified federal production subsidies by 2020, including the ACCA to Liquefied Natural Gas, the duty exemption for imports of mobile offshore drilling units in the Atlantic and the Arctic, the Canadian Development Expense, the Canadian Exploration Expense Tax deductions, the Canadian Oil and Gas Property Expense, the Foreign Resource Expense, and the Foreign Exploration and Development Expense.

[1] http://fffsr.org/communique/supporters/
[2] https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9988.pdf

2. Federal fiscal measures to reduce GHG emissions from transportation

Canada's second biennial report on climate change, submitted to the UNFCCC in December 2015, highlighted key sectors of the Canadian economy where GHG emissions are projected to substantially grow by 2030 under current measures: oil and gas, and transportation, which are the leading contributors to Canada's GHG emissions. Carbon pricing and new vehicle fuel-efficiency regulations are expected to address GHG emissions from transportation. However, those measures will be insufficient to induce all the key changes that are needed to achieve deep GHG emission reduction, particularly in transportation, where individual choices on mobility and vehicles have lasting consequences on GHG trends.

There exist opportunities for the federal tax system to complement a national carbon pricing system and ensure that Canadians transportation choices, and vehicle manufacturers' fleet that maximize GHG reductions are more financially attractive. We welcome budget 2016's new tax credits for electric vehicles and electricity storage however, there are additional fiscal measures that should be implemented in Budget 2017.

Recommendations:

- Increase the federal excise tax on fuel-inefficient vehicles.

  Starting in 2018/2019, there should be a significant increase of the federal excise tax on fuel-inefficient vehicles (the Canadian Green Levy), starting at a minimum tax of $1,000 per vehicle consuming >5L/100 km[3] and rising per fuel consumption threshold. The Canadian Green Levy would not apply to vehicles consuming less than 5L/100 km. The Canadian Green Levy should be stringent enough to significantly increase sales price of high-GHG emitting vehicles.

  Fuel-inefficient gasoline vehicles (cars, SUVs, mini-vans and pick-up trucks) remain artificially affordable due to the lack of taxation to internalize the costs associated with the sales of those vehicles. The polluter-pays principle requires that both manufacturers of high-emitting vehicles and consumers of such vehicles pay for the pollution costs associated with the sales of high-emitting vehicles.

- Use revenues from the revised Canadian Green Levy to provide a consistent purchase rebate across Canada for the purchase of electric vehicles;

- Remove the GST on electric vehicles sold in Canada.

  Quebec provides a rebate of $8,000 for the purchase — including leasing — of an electric vehicle (EV), and a rebate of between $400 and $8,000 for rechargeable hybrids, to consumers, municipalities, businesses and not-for-profit organizations. Financing is also available to purchase

[3] For a list the list of fuel-inefficient vehicles and current associated tax rates see: http://www.cra-arc.gc.ca/E/pub/et/etsl64/list/lst_vh-2015-eng.html The Canadian Green Levy currently starts at a threshold of 13L/100km at a tax of $1,000. In comparison, the Ontario Tax and Credit for Fuel Conservation (or feebate program) applies a tax starting at a threshold of 6.0L/100km.

a residential charging station.[4] Ontario provides rebates of up to $13,000 for the purchase of a battery electric vehicle (BEV) and funding to purchase a charging station. The removal of the HST on sales of electric vehicles in Ontario was also recently announced.[5] The federal government should provide purchase rebates in provinces where they do not exist to kickstart the electric vehicle demand across Canada.

3. Phase II of federal Infrastructure investments

Federal funding for active transportation projects

Équiterre welcomes the federal public transit funding partnership with Quebec, where for the first time, federal public transit funding is now available for eligible active transportation projects[6]. However, a dedicated federal funding for active transportation is necessary to fund active transportation projects at the municipal level across the country.

Recommendations:

- Establish an infrastructure fund dedicated to supporting active transportation projects (walking and designated cycling paths) to support multiple modes of transportation. The fund should provide an initial funding to municipalities of at least $1 billion over ten years for eligible active transportation projects.

  Across Canada, cycling and walking are growing in popularity as a daily commuting option. It offers a healthy, convenient and affordable solution to driving and will play an increasingly important role in helping Canada meet its GHG emission reduction commitments. However, not all cities are investing in cycling and walking infrastructure to the same degree, particularly when it comes to creating separated lanes and other measures that improve safety and attract new cyclists and pedestrians. Understanding the current cycling and walking infrastructure in cities across Canada will help the federal government identify opportunities to improve infrastructure as well as adopt or support policy tools to ensure these modes are a viable transportation option. A national benchmarking assessment is required to guide investment in active transportation infrastructure and to guide cities and major municipalities in developing targets for mode shifting towards walking and cycling.

This submission is a preliminary summary of more detailed recommendations to be submitted ahead of Budget 2017.

[4] http://vehiculeselectriques.gouv.qc.ca/particuliers/rabais.asp
[5] http://www.mto.gov.on.ca/english/vehicles/electric/charging-incentive-program.shtml
[6] http://www.infrastructure.gc.ca/plan/ptif-fitc/ptif-program-programme-eng.html

About: Équiterre – changing the world, one step at a time

With more than 130,000 followers, 18,000 paying members and 1953 media mentions (in 2014), Equiterre is Quebec's most prominent environmental group[i] and one of the most influential ENGO federally. For over 20 years, Equiterre (legal name ASEED) has worked with citizens, farmers, organizations, think tanks, businesses, municipalities and governments of all stripes to influence environment and climate change policies and related practices in Quebec and Canada. Équiterre's national policy work is led out of its Ottawa office.

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