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House of Commons Standing Committee on Finance: Pre-Budget Consultations in Advance of the 2021 Budget

List of Recommendations

Recommendation 1. The federal government should conditionally re-invest carbon pricing revenues collected from the manufacturing and resource sectors directly back into those sectors to support emissions reducing investments that produce measurable reductions in emissions.

Recommendation 2. The federal government should increase the investment in the Low Carbon Economy Fund (LCEF) from $2b to $4b annually and increase the funding thereafter by a percentage equivalent to the annual increase in carbon pricing.

Recommendation 3. The federal government should invest in and broaden the mandate of the Canadian Centre for Climate Services (CCCS) to become a more robust and operationally focused 'Climate Action Coordination Centre' in order to take a more proactive role as a central coordination hub at the federal level for climate change plans and actions across departments and with the Provinces, Territories and municipalities. Consideration should be given to aligning this capability with a central agency or body, such as the Privy Council Office (PCO).

Background and Context

I am pleased to be offered the opportunity to participate in the Standing Committee of Finance 2021 pre-budget consultations. While Canada is presently grappling with the serious financial implications due to actions taken to support Canadians during the COVID-19 pandemic, it is very important that the federal government not lose sight of bigger and longer term challenges facing all Canadians that must also be funded as a priority. Chief amongst these is the existential threat of climate change caused by human activity. In June 2019, the House of Commons declared a "Climate Emergency" recognizing that Canada is warming at twice the rate as the global average and that Canada must meet its international obligations, in particular to the Paris agreement.

By its own measurements, Canada's greenhouse gas emissions (GHG) have continued to increase on a yearly basis, and were measured at 729 Mt CO_2 equivalents in 2018[i]. There is no discernible difference in emissions data between successive governments – all have failed to reduce GHG emissions. While Canada represents only 1.6% of global GHG emissions, it is one of the highest emitters per capita in the world. Further, recent research published by Proceedings of the National Academy of Science (USA) indicates that the worst case scenario for global warming (an increase of 3.3 to 5.4 degrees C overall by 2100[ii]) is consistent with current policy actions being taken by governments around the world, often referred to as the "business as usual" model. This goes well beyond the Paris commitments to keep warming to "well below" 2 degrees C. The majority of scientists agree that the ensuing impact on climate, the biosphere, weather events, and even food supplies is likely to be severe if GHG emissions continue to increase at the present rate and do not start going down quickly. Further, there is emerging

evidence in light of COVID-19 that climate change and ecological disruption are contributors to an increasing number of zoonotic diseases[iii].

Given that the science is irrefutable, the federal government must commit to increased investment in 2021 and beyond that will achieve results and begin to turn the tide and start to reduce GHG emissions in the near term and over the next decades in order to achieve the stated goal of "Net Zero by 2050." If not, the government is likely to fail to meet its Paris commitments and will not put Canada on track to achieve the policy objective of "Net Zero" by 2050. Finally, by absence of investment, the federal government will in effect be making the policy choice to commit the next generation of Canadians to a future of scarcity, potential environmental collapse, severe weather events and the ensuing competition and conflict over increasingly limited natural resources. The "Climate Emergency" declaration is meaningless unless real progress is made in addressing this challenge.

Substantive year over year funding investment towards measures that will help reduce emissions must be coupled with a tighter policy and regulation framework to change this country's current trajectory of increasing emissions.

Proposals and Associated Recommendations

Conditionally Reinvest Carbon Pricing Revenues into Manufacturing and Resource Industries

Similar to what was proposed by the Canadian Manufacturers & Exporters (CM&E) for the 2019 budget consultations[iv], carbon pricing revenue collected from the manufacturing and resource sectors needs to be reinvested back into those sectors, with the condition that it must be invested in emission reduction solutions that produce measurable results, as well as supporting the transition of workers displaced by the adoption of those solutions. This will help these sectors remain competitive in the global market, while driving innovation towards lower emissions technology and solutions, and support the transition of knowledge and skills toward lower emission solutions. This in turn will generate competitiveness for Canadian companies in the global low carbon economy which will become more pressing as time goes on. In effect, it could create a virtuous cycle of competitive reinvestment within the manufacturing and resource sectors into cleaner, low emissions solutions and lead to a competitive advantage for Canadian companies in the emerging low carbon global market.

The current policy choice of transferring up to 90% of carbon pricing revenue to households has failed to generate reductions in emissions. The fiscally responsible choice is to re-evaluate this approach and adopt one that is more likely to achieve concrete results in emissions reductions. This investment would coincide with the planned interim review of carbon pollution pricing in 2020[v] and is more likely to achieve results in leveraging the carbon pricing structure that has been put in place.

Recommendation 1. The federal government should conditionally re-invest carbon pricing revenues collected from the manufacturing and resource sectors directly back into those sectors to support emissions reducing investments that produce measurable reductions in emissions within those sectors.

Increase Funding and Ensure Stable Growth of the Low Carbon Economy Fund (LCEF)

COVID-19 has had a significant impact on Canada's economy with job growth still below pre-pandemic levels. The federal government's existing Low Carbon Economy Fund (LCEF) can provide an important mechanism to stimulate economic activity at the national, provincial and municipal levels, while generating jobs and investment into lower emissions and clean solutions. The LCEF is currently funded at approximately $2b overall which includes approximately $1.4b currently being provided to Provinces and Territories that have adopted the Pan-Canadian Framework on Clean Growth and Climate Change (PCF) or elements thereof[vi].

In comparison to the economic measures taken to deal with COVID-19 between March and July of 2020, the present level of funding committed to the LCEF is relatively insignificant. Ironically, the cumulative economic impact of climate change and environmental degradation on Canada's economy, the health and welfare of its citizens, the potential for climate-driven conflict and migration pressures on our borders has the potential to make what has been experienced to date with COVID-19 seem like child's play. Some of these risks are outlined in the Bank of Canada's initial evaluation of the economic impacts of climate change[vii]. Accordingly, as one of the main funding vehicles to drive innovation, investment and adaptation and which is accessible by Provinces, Territories, municipalities and businesses, a significant increase in stable funding for the LCEF with an annual escalator, would demonstrate substantial and long term commitment by the federal government to reducing emissions and helping to provide clean energy and transportation solutions across the country. This will promote innovation and job creation where it is needed most – within the Provinces, Territories and municipalities while helping to pivot Canada's economy towards cleaner technologies and lowering emissions through decentralized solutions. Funding to the LCEF should be doubled to $4b in the 2021 budget and put on an "escalator" to increase funding annually by a percentage equivalent to the increase in carbon pricing year over year.

Recommendation 2. The federal government should increase the investment in the Low Carbon Economy Fund (LCEF) from $2b to $4b annually and increase the funding thereafter by a percentage equivalent to the annual increase in carbon pricing.

Increase Funding and Broaden the Role of the Canadian Centre for Climate Services (CCCS)

The federal government established the Canadian Centre for Climate Services in October 2018. Its current mandate is limited to providing an information portal for climate change related data and on climate adaptation measures[viii]. This largely passive role does not appear to support the more pro-

active coordination capacity that would logically be required in order to contend with the declared "climate emergency" at the federal level, and which has been also declared by many municipalities.

In order to coordinate planning and operational activities related to research and development, investment, the just transition of displaced workers and the oversight of related LCEF funding, there needs to be a more robust and pro-active capacity at the federal level. To support the momentum that would correspond to the urgency of the "climate emergency" the CCCS would need to become more like an operations centre or 'Climate Action Coordination Centre' with a focus on pro-actively coordinating plans, activities and other measures to address climate change across federal departments and agencies and with the Provinces and Territories. This would generate coherence at the federal level and provide an important hub with which Provinces, Territories, municipalities, businesses and individuals could interact.

The CCCS is presently embedded in NRCAN and its funding is likely a derivative of the NRCAN budget. With a more robust role will be the need for a significant increase in annual funding, which due to the importance of this function, should be parsed out from NRCAN baseline budget for visibility. Alternatively, a more robust CCCS could also be better aligned to a cross-departmental role if it was aligned with the Privy Council Office (PCO). Either way, the necessary funding to stand up and sustain this capability will be required.

<u>Recommendation 3</u>. The federal government should invest in and broaden the mandate of the Canadian Centre for Climate Services (CCCS) to become a more robust and operationally focused 'Climate Action Coordination Centre' in order to take a more proactive role as a central coordination hub at the federal level for climate change plans and actions across departments and with the Provinces, Territories and municipalities. Consideration should be given to aligning this capability with a central agency or body, such as the Privy Council Office (PCO).

Endnotes

[i] https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/greenhouse-gas-emissions.html

[ii] https://www.pnas.org/content/early/2020/07/30/2007117117

[iii] https://www.researchgate.net/publication/44798648_Potential_Influence_of_Climate_Change_on_Vector-Borne_and_Zoonotic_Diseases_A_Review_and_Proposed_Research_Plan

[iv] Canadian Manufacturers & Exporters Submission to House of Commons Standing Committee on Finance: Pre-Budget Consultations in Advance of the 2020 Budget. https://cme-mec.ca/blog/initiatives/2020-federal-pre-budget-submission/

[v] Pan-Canadian Framework on Clean Growth and Climate Change. Third Annual Synthesis Report on the Status of Implementation. http://publications.gc.ca/site/eng/9.847802/publication.html

[vi] https://www.canada.ca/en/environment-climate-change/services/climate-change/low-carbon-economy-fund/what-is-lcef.html

[vii] Bank of Canada: Researching the Economic Impacts of Climate Change. https://www.bankofcanada.ca/2019/11/researching-economic-impacts-climate-change/

[viii] https://www.canada.ca/en/environment-climate-change/services/climate-change/canadian-centre-climate-services/about.html