



# Alternative Federal Budget 2003

## An Action Plan for Kyoto

Alternative Federal Budget 2003 Technical Paper #2

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**T**he federal government will almost certainly post a much greater surplus in the current 2002/03 fiscal year than the official government projection. Based on conservative economic assumptions, the Alternative Federal Budget project estimates that the surplus will come in at around \$8 billion. By continuing the Paul Martin tradition of lowballing projected revenues and including large contingency reserves, Finance Minister John Manley is able to lower public expectations about the affordability of investments to meet social needs.

Typically in recent years the federal government has allocated the annual “surprise” surpluses to debt reduction. This is fairly sneaky and undemocratic, since, unlike with the annual government budget, there is little if any public debate about how to spend funds left over at year-end.

The use of surpluses to pay down Canada’s debt is mostly of symbolic value. Actual reductions in Canada’s debt-to-GDP ratio, the best measure of federal debt load, are driven much more by increases in GDP, rather than decreases in total debt. In other words, the economy is “growing around” the debt. In the current fiscal year, federal debt-to-GDP will fall from 49% at the end of the 2001-02 fiscal year to 45.4% at the end of fiscal 2002-03 if the projected surplus of \$8 billion goes entirely to debt repayment. If, on the other hand, it does not go to debt repayment, debt-to-

GDP still falls to a slightly higher level of 46.1%.

This background paper proposes a better use for the projected surplus. Rather than use money Canadians have already paid through their taxes to make a mostly symbolic payment on the debt, we propose that these funds be rolled into an innovative Kyoto Investment and Transition Fund that would allow Canada easily to meet Kyoto targets over the next ten years, while at the same time bolstering sustainable economic development. Creating such a fund out of the 2002-03 surplus is appropriate, given that the federal government ratified the agreement in the current fiscal year.

The Kyoto Fund would support a two-pronged innovation and transition strategy for Kyoto. It would put \$7 billion to accelerate the transition towards a more sustainable energy economy, including energy efficiency and the development and implementation of environmentally friendly technologies and power sources. And it would provide \$1 billion for a “just transition” strategy to assist those workers adversely affected by action on climate change.

### **Climate Change: Time for Action**

Climate change is happening. The scientific community continues to urge the world to take climate change seriously and to decrease emissions of greenhouse gases. The modest



increases in global temperature already experienced have demonstrated the economic costs—in terms of ice storms, hurricanes, droughts and other extreme weather patterns—of failing to take action.

While much of the debate around Kyoto has focused on the perceived costs of implementation, little attention has been paid to the *ongoing costs* of climate change itself, or to the potential economic, environmental and social *benefits* of addressing climate change. Ongoing costs are wide-ranging and include the cost of repair and replacement in the af-

Prime Minister Chretien's announcement, at the World Summit on Sustainable Development in August, that Canada would ratify the Kyoto Protocol by the end of 2002 set off a national debate on Kyoto. The Alberta government quickly became Kyoto's most vociferous opponent, spending \$1.5 million on an ad campaign of misinformation and scare-mongering.

Meanwhile, a number of industry associations—most notably the Canadian Manufacturers and Exporters, the Canadian Association of Petroleum Producers, and the Cana-

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termath of extreme weather patterns such as ice storms and floods, which are occurring with greater frequency. They also include the impact on livelihoods of farmers due to droughts and native communities in the far north due to changes in traditional food systems.

The National Climate Change Process (NCCP)—a two-year, multi-stakeholder process—recently found that the Kyoto Protocol could be reached given available technologies, costing the Canadian economy between 0% and 2% of GDP over a ten-year period. Implementing a domestic emissions trading program would limit those costs to about 1% of GDP. Since the economy was expected to grow by 30% over that period, Canada could meet its Kyoto commitments and still experience economic growth of 29%. This study is consistent with others showing the impact will be small or non-existent.

dian Chamber of Commerce—lobbied against Kyoto ratification. They predicted massive job losses and economic devastation, even though federal estimates showed neither were likely.

While Canada did ratify Kyoto in December 2002, the intense lobbying campaign against it pushed the federal government to make substantial changes to the federal Kyoto implementation plan. The plan released on November 21<sup>st</sup>:

- Limits industry's emission reductions to 23% of the Kyoto target even though industry is responsible for over 60% of Canada's greenhouse gas emissions;
- Moves away from a domestic emissions trading program and instead adopts sector-by-sector covenants, even though this will have higher economic impacts on the Canadian economy as a whole;



- Relieves Canadian industry of any economic risks; and
- Binds the federal government to no tax increases.

Meeting the Kyoto targets is still possible under this newest plan, but the federal government has limited its policy options and lets Canadian industries shirk their full responsibilities. Particularly notable is the federal government's decision to consider meeting 10 Megatons (at a minimum) of its Kyoto reduction through the purchase of emissions credits on international markets. This would cost the government approximately \$100

## Developing and Implementing Environmentally-friendly Technologies

The Kyoto Investment and Transition Fund would allocate \$7 billion over ten years to support an alternative strategy for Kyoto that would include funding energy efficiency projects, the development in Canada of green technologies and power sources, and the implementation of existing and new technologies to make Canadian industry more sustainable.

There are many opportunities to reduce our energy needs through energy efficiency initiatives. The United Nations has estimated

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million—if it only purchases this minimum amount.

The Canadian government has stressed innovation over much of the past decade, typically in the context of information and communications technologies. Addressing Kyoto should also be viewed through an innovation and technology lens. Cost-effective and viable technologies already exist to decrease greenhouse gas emissions and human impact on the climate. In addition, emerging industries in, for example, renewable energy production, provide vast opportunities for growth and job creation. Spending money on the purchase of emissions credits would be a waste given other opportunities to invest in a greener economy.

that industrialized countries can become 25-35% more energy efficient over the next 20 years at no net cost. Improving their energy efficiency will make Canadian industries more competitive, not less. Individuals can save money by making their homes and vehicles more energy efficient. And investments in energy efficiency create many more jobs than investments in simply supplying more energy.

Many renewable energy technologies are viable today, societal commitment remaining the only major obstacle to their widespread implementation. Such technologies include: earth energy technologies; wind power; producing ethanol from biomass; and solar power.

We recommend a number of smart investments to provide business incentives in emerg-



ing industries and to create new sustainable jobs:

- Creating energy efficiency funds, modelled on the Toronto Atmospheric Fund, for individuals and businesses who want to make commercial and residential buildings more energy efficient;
- Funding needed public transit infrastructure in cities across Canada; and,
- Significantly expanding the funding provided by Technology Partnerships Canada for the development of new environmentally-friendly technologies, power sources and applications. New money for environmental initiatives could also be raised by diverting existing funding away from the

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- Extending a 1.2 cents/kWh subsidy to all non-hydro renewable electricity generation, to match the present subsidy for electricity generated from wind power. This subsidy could help meet a commitment that 10% of electricity by 2012 will be generated by non-hydro renewable sources.

Efforts to improve energy efficiency should be complemented by a strong industrial strategy aimed at the diffusion of existing technologies in existing industries, plus the strategic targeting of new green technologies and power sources as a development area for the Canadian economy. A number of means of implementing this include:

- Providing tax credits to companies that invest in industrial energy efficiency and technologies that reduce greenhouse gas emissions;
- Expanding the Industrial Research Assistance Program (IRAP), a successful federal program that supports the diffusion of new

aerospace and defense industries that currently dominate the funding base.

### Just Transition

One important challenge of addressing climate change will be the transition from an economy that is heavily reliant on fossil fuel use to one that gradually focuses more on emerging industries—energy efficiency, renewable energy, and public transportation. While recent analyses reveal opportunities for positive economic gain, this transition will mean shifts in the types of jobs available. Energy workers in particular are vulnerable to job losses. Over the 1990s, the Canadian energy sector shed over 80,000 jobs, despite increased production and increased exports.

Meeting Kyoto will mean job losses in some sectors and job gains in others. Taking a conservative assumption that Canada will meet its obligations without international emissions trading, the NCCP modeling analysis shows that there could be a loss of 12,800



jobs in the energy sector. The provinces that would experience the greatest job losses (in descending order of impact) are Alberta, Ontario, Nova Scotia, and BC. Over that same time period, 16,000 jobs would also be created in the energy sector, but not necessarily in the same energy sub-sector or province as job losses.

The solution to this shift in jobs is not to forego action on climate change, but to ensure that those who *do* lose their jobs are given other options, particularly in those related sectors experiencing overall growth. Transition programs for displaced workers have been successfully implemented in the U.S. and

A high-end estimate of the cost of such a program would be about \$1 billion over ten years. These represent incremental funds to the EI system, which would also shoulder its portion of the transition.

### Beyond the Kyoto Fund

The Kyoto Fund we have outlined above should be seen as the minimum effort needed by Canada to meet the Kyoto targets. However, we recommend that Kyoto be seen as a catalyst for transforming the Canadian economy onto a more sustainable footing. There are some other policy measures that go

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Canada, but only when these programs are developed up-front.

The elements of a successful Just Transition program include:

- Training and educational opportunities that allow workers to upgrade their skills for the jobs that are being created;
- Early notice of layoffs, whenever possible, so that workers can access counseling and training/educational programs quickly;
- Income support for displaced workers for up to three years—depending on time in the energy workforce—to enable workers to take advantage of training and educational opportunities;
- Peer counseling to assess workers' needs, and analysis of labour market needs; and
- Relocation funds, up to a maximum of \$15,000 per worker, for those who must move in order to find new work.

beyond the Kyoto Fund that would complement the Fund's approach to climate change transition.

Subsidies now extended to conventional energy production cost about \$250 million per year. These subsidies to conventional energy production could be directed into new subsidies for clean energy. The renewable energy industry received only \$12 million in subsidies in 2000, mostly in the form of research and development programs and tax incentives.

The federal government should also be able to generate a pool of funds by auctioning off greenhouse gas emissions permits. The federal government's most recent implementation plan moves away from selling domestic emission permits, a move we urge them to reconsider. Moving away from tradable permits only relieves the emitters of greenhouse gases from paying any of the costs for climate



change action, thereby rewarding the biggest polluters.

These two sources of funding could conservatively generate \$12.5 billion over the next ten years. This money would be allocated towards enhancing the toolbox of subsidies, tax credits and public infrastructure investment required to go beyond the Kyoto targets.

Further change can be contemplated in the design of the tax system to better meet certain environmental objectives. Tax credits for achieving environmental benchmarks (such as credits for ecologically-certified or new value added production in the forest industry) could reinforce the measures set out above. The pro-

Canada's cities. The aim should be a future of zero emission vehicles that address both climate change and urban air pollution.

This entails getting serious about automobile fuel efficiency. The federal government should provide assistance with the development and implementation of greener technologies to auto companies. But the federal government must be a leader in the creation of market demand for new technologies. To this end, we recommend:

- Setting out requirements for zero emission vehicle sales over the next 5-20 years, along the lines of California's plan to ensure that

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In addition, we recommend making polluting activities more expensive by establishing new taxes on carbon emissions, chemical pollutants, and particulate emissions. To minimize transition costs, these taxes should be phased in based on a timetable over 10-20 years.

An Urban Air Pollution strategy could be complementary to Kyoto initiatives. For example, a move to reduce carbon emissions from automobiles can be twinned with a strategy of addressing the problem of smog in

10% of new auto sales between 2003 and 2008 in the state are zero emission;

- A timetable for improving fuel efficiency standards of auto manufacturers' fleets, along the lines of the US Corporate Average Fuel Economy standards;
- The implementation of a national "feebate" initiative. This is a revenue-neutral tax shift that would increase taxes on fuel-inefficient vehicles and use this revenue to provide subsidies for purchases of fuel-efficient vehicles.

Finally, the accelerated development of inter-city and mass commuter transit must be made a priority over expanding the infrastructure for automobiles. A high-speed rail link from Windsor to Quebec City, along the lines



of the French *TGV* or Japanese *shinkansen* would be a good start. A rapid build-out of public transit in cities, along the lines common in Europe, is also a necessary to relieve traffic congestion in cities and reduce automobile reliance. Each of these could be achieved under the auspices of existing Crown corporations and regional bodies.

## Conclusion

The strategy outlined above should be viewed as a national project, which at the end of the period will make Canada a world leader in addressing climate change. By implementing

such a program, we can assure Canadians that nobody will be unduly burdened by action on climate change. In fact, this program will lead to economic benefits that outweigh the much-hyped, and overstated, transition costs. Ultimately, the Kyoto targets should be seen as a minimum benchmark of success. Canada's goal should be not just to meet the targets, but to substantially exceed them.

For a more detailed exposition of the program outlined above, see *Making Kyoto Work: A Transition Strategy for Canadian Energy Workers*, by Dale Marshall of the CCPA.



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