March 23, 2016

Federal Budget Sets Stage for National Climate Plan

The March 22 federal budget sets the stage for negotiations with provinces and territories with the $2 billion allocation over two years starting in 2017 to the Low Carbon Economy Fund. The timing of the cash infusion aligns precisely with expectations that premiers and the Prime Minister will conclude national climate plan negotiations in late 2016 in time for the 2017 budget. The criteria for receiving federal money strongly suggest the federal Government intends to push provinces and territories hard to do more than currently planned to reach and exceed climate targets.

According to Budget 2016, the Low Carbon Economy Fund "will support provincial and territorial actions that materially reduce greenhouse gas emissions and are incremental to current plans, and achieve significant reductions within the period of Canada's nationally determined target. Resources will be allocated towards those projects that yield the greatest absolute greenhouse gas reductions for the lowest cost per tonne."[1] Money for Tonnes is important to negotiating with provinces and territories. It shows that the federal Government is serious about attaining our climate protection targets. It is also important, however, not to forget that Canada and the world have both short-term targets (to 2020 and to 2030), as well as long-term decarbonization goals (to 2050 and beyond). There is a need to support near-term emissions reductions and transformation.

To show just how serious it is about reaching our national near and long-term climate protection goals, the federal Government is right to invest in cost-effective and incremental reductions, but also needs to invest in longer-term play projects that stimulate transformation and deep decarbonization. There is the potential to do that within existing infrastructure programs, not just through venture capital plays through Sustainable Development Technology Canada or other clean technology investments. These principles (incremental, cost-

[1] http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf, p. 157

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effective and transformative) should apply to ALL federal spending going to provinces and territories but also to local governments through municipal and social infrastructure, including through the Federation of Canadian Municipalities Green Municipal Fund which just received a $200 million injection to build municipal capacity to cut greenhouse gas emissions ($75 million) and to invest in climate protection projects ($125 million).

Canada also needs to coordinate among all infrastructure programs to create a cycle of learning and improvement where programs like the Green Municipal Fund are delivering projects and environmental gains increasingly at the transformative scale to demonstrate and lead other infrastructure programs. Green and Social Infrastructure spending is designed, for example, to generate regulatory compliance and best practice. The Green Municipal Fund should not be generating the same level of performance in its portfolio. Coordination is required to ensure the Green Municipal Fund experience is increasingly in transformative projects generating reductions of 80 percent or more and that project experience informs the direction of investments in other infrastructure programs over time.

Reaching our climate protection goals requires long-term investment. While Government commitments to abide by the Paris Agreement will stimulate private sector investments in clean technology and processes, government investments will remain essential in the near to medium term. Budget 2016 said nothing about the likely source of future funds. Carbon pricing revenue is likely the primary new source of this revenue as we head into budget 2017. Provinces, territories and the federal Government are scheduled to meet at the end of March to begin work through the four ministerial tables/working groups established at the recent First Ministers Meeting. The carbon pricing working group (and all other working groups) is to assess options by June 2016. With a federal budget deficit likely over the short to medium term, and with a promise to ensure carbon pricing revenues raised in a province/territory are spent in that province/territory, there is reason to speculate that federal direction/control could be maintained by directing carbon pricing revenue through the Low Carbon Economy Fund or other infrastructure vehicles to ensure provinces and territories spend carbon pricing revenues on carbon reduction.

A partner with a firm hand is what Canada needs from its federal Government as we head into tense negotiations with provinces and territories. Show us the tonnes and we'll show you the money is not an unreasonable place to start those negotiations, but deep decarbonization is the long game. Funding and other supports such as tax treatment should be allocated based on deep decarbonization objectives not just cost-effectiveness considerations.