environmental defence

Submission to Department of Finance Canada

Recommendations in response to 2023/24 Pre-Budget Consultations

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Submission on behalf of:

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Summary Recommendations:

1. Stop the public transit death spiral in budget 2023 with additional operating support and signal the intent to accelerate permanent transit funding program by two fiscal years.
2. Eliminate all subsidies, public financing, and other fiscal supports provided to the oil and gas sector - including for fossil hydrogen and for CCUS in the energy sector. Ensure the new hydrogen tax credit is not a new fossil fuel subsidy.
3. Scale up climate spending: invest $287 billion over the next five years on climate solutions.
4. Provide $100 million to scale up local reuse systems.
5. Invest $250 million in Canada's freshwaters.
6. Invest in good jobs and vibrant communities .

1. Stop the public transit death spiral in budget 2023 with additional operating support and signal the intent to accelerate the permanent transit funding program by two fiscal years

The pandemic has broken public transit's funding model. With lower ridership and less farebox revenues, the federal government has had to intervene twice to save public transit from a death spiral of service cuts and fare hikes. However, ridership is still yet to recover and Canada continues to be faced by the challenges of the climate emergency and the housing crisis.

The pandemic highlighted how over-reliant Canadian transit systems are on fare revenues to fund operations. Before the pandemic, over half (51%) of transit operating budgets were paid for through farebox revenue. With ridership still slow to recover – and the financial assistance from other levels of government drying up – transit systems face the threat of a death spiral. That is a vicious cycle of service cuts and fare hikes that push people away from transit and into their cars, further decreasing revenue, leading to further service cuts. If this is allowed to happen, it will make cities more congested, increase carbon emissions, and have the greatest impact on society's most vulnerable.

The permanent public transit fund is a historic opportunity to decarbonize the transport sector, while delivering a more inclusive economy and fostering greater social equity. It can be a powerful tool to leverage greater housing supply from investments in major capital projects, building on the strong success existing transit infrastructure programs have had at building subways and light rail. It can also form the basis for a transformation of urban mobility across Canada towards sustainable modes, reducing carbon emissions, stopping urban sprawl, improving our quality of life, and dramatically reducing regional disparities in transit service levels. Environmental Defence Canada has a robust set of recommendations in response to the government of Canada's consultations on the design of this program, which can be read in full, below.[1] In summary:

- **The federal government must stop the public transit death spiral in budget 2023** with additional operating funding support and signal that the permanent transit funding program is being accelerated by two fiscal years to permanently resolve transit operating shortfalls while setting transit systems on a growth path consistent with Canada's climate ambitions.
- **Expand and ensure that this next-generation public transit program funds bus service**, to foster modal shift, create more equitable transit service, reduce regional disparities and optimize the use of existing transit fleet capacity.
- **The next update to the federal emissions reduction plan must set clear targets** for an increased mode share of sustainable transportation.
- **Require 'Supportive Policies Agreements' with municipalities to be signed as part of business cases for all major transit capital projects with clearly defined land-use standards** to increase housing supply and transit ridership through equitable transit-oriented development.

[1] Wallace, Nate (2022) Public Transit and the Path to Net Zero: Submission to consultations on permanent public transit funding in Canada. Environmental Defence, Équiterre, David Suzuki Foundation, Ecology Action Centre, Conservation Council of New Brunswick, Canadian Centre for Policy Alternatives.
https://environmentaldefence.ca/wp-content/uploads/2022/09/EDC-CCPA-EQT-EAC-CCNB-DSF-Submission-on-Permanent-Transit-Funding.pdf

2. Eliminate all subsidies, public financing, and other fiscal supports provided to the oil and gas sector - including for fossil hydrogen and for CCUS in the energy sector. Ensure the new hydrogen tax credit does not subsidize fossil hydrogen.

It has been over a decade since Canada first committed to ending fossil fuel subsidies. Yet in 2022, the Government of Canada provided or announced over $18 billion in subsidies and public financing for the oil and gas sector.[2]

In 2022, the Government of Canada delivered on an important promise by releasing a new policy aimed at ending new international public financing for fossil fuels, which came into effect January 1, 2023.[3] If applied with integrity, this policy will effectively end all financing for international fossil fuel projects.

The new restrictions will impact support for international fossil fuel projects. However, the bulk of public financing for fossil fuels currently supports domestic activity. The Government of Canada has already committed to ending inefficient fossil fuel subsidies by the end of 2023 and to phasing-out public financing of the fossil fuel sector, including from Crown corporations, consistent with our government's commitment to reach net-zero emissions. These promises are interlinked and should be implemented together. This could be achieved by expanding the new Guidelines for Canada's International Support for the Clean Energy Transition to include domestic public financing.

These commitments are at risk of being undermined by weak implementation and new subsidies and public financing being made available to false solutions, including carbon capture, utilization and storage (CCUS), gas, and fossil-based hydrogen, such as the new CCUS investment tax credit. The tax credit was implemented against the recommendations from over 400 of Canada's leading academics and energy transition experts. Continued government support for fossil gas, CCUS and fossil-based hydrogen contribute to expanded or prolonged fossil fuel production instead of the just energy transition needed to stay within 1.5°C limits. Despite decades of research, CCUS is neither economically sound nor proven at scale, with a terrible track record and limited potential to deliver significant, cost-effective emissions reductions.[4] CCUS does not address downstream emissions (emissions created when fossil fuels are burned, for transportation or heating) which constitutes 80% of the emissions from oil and gas. CCUS perversely increases emissions, since most of the captured carbon is actually used to boost oil production.[5] From 2000-2020 governments in Canada have spent at least $5.8 billion subsidizing CCUS. The Government of Canada provided $2 billion of that. These enormous subsidies have resulted in a yearly capture rate of less than 4 MT (representing 0.05% of Canada's emissions), most of which is used for enhanced oil recovery.[6]

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[2] Environmental Defence (2022) The Running List of Federal Fossil Fue; Subsidies in Canada in 2022. Available: https://environmentaldefence.ca/federal-fossil-fuel-subsidies-tracking/

[3] Natural Resources Canada (2022) Guidelines for Canada's International Support for the Clean Energy Transition. Available: https://www.nrcan.gc.ca/home/guidelines-for-canadas-international-support-for-the-clean-energy-transition/24797

[4] Anderson, K. & Peters, G. (2016) The trouble with negative emissions. Science, 354(6309). Available: https://www.science.org/doi/full/10.1126/science.aah4567

[5] Sekera, J. & Lichtenberger, A. (2020) Assessing Carbon Capture: Public Policy, Science, and Societal Need: A Review of the Literature on Industrial Carbon Removal. Biophysical Economics and Sustainability. Available: https://link.springer.com/article/10.1007/s41247-020-00080-5

[6] Levin, J. (2022) Buyer Beware: Fossil Fuels Subsidies and Carbon Capture Fairy Tales in Canada. Environmental Defence Canada. Available: https://environmentaldefence.ca/wpcontent/uploads/2022/03/Buyer-Beware-FFS-in-2021-March-2022.pdf

Similarly, there is a risk that if the proposed investment tax credit for hydrogen is poorly designed, it could be used to subsidize fossil-hydrogen technology - which is incompatible with Canada's climate commitments - or inadvertently impact the availability of capital for more cost-effective and reliable climate solutions. This would risk locking Canada into a fossil-based economy and divert funds from effective, cost-effective decarbonization measures that align with limiting global temperature increases to 1.5°C. To the extent that any public resources are made available for hydrogen development, they should be reserved for renewable hydrogen for the hardest-to-decarbonize sectors that do not have viable decarbonization alternatives.

Meanwhile, effective climate solutions have received limited government support. For example, Canada's crown corporations have provided over 11 times more financing to fossil fuels than to clean energy, compared to the G20 average of 4:1 fossil finance to clean energy.[7]

Tackling the climate crisis will require significant investments into renewable energy, electrification and energy efficiency. Providing federal support to fossil fuels diverts government resources away from climate solutions and a just transition to a clean energy future. Instead of continuing to subsidize the sector, the government must implement strong regulatory frameworks that ensure oil and gas companies are doing their fair share, while investing in the activities that put us on a safe climate–aligned pathway.

3. Scale up climate spending: invest $287 billion over the next five years on climate solutions.

Tackling the climate crisis will require significant investments into renewable energy, electrification and energy efficiency. New research finds that effectively decarbonizing the Canadian economy in order to reach our climate commitments and ensure Canada's long term prosperity in a low-carbon global future will require an investment from the federal government of $287 billion over five years, which would be equivalent to approximately 2% of GDP. For example, this includes $25 billion to support Indigenous-led climate policies and solutions; $20 billion to build a clean electricity grid with a focus on interregional transmission and targeted investments in rural, remote and Indigenous communities; $66.5 billion to make homes and buildings more energy efficient through retrofitting programs and workforce development initiatives and $25 billion to build a more resilient society through transfers to the provinces for climate adaptation. [8] This spending includes the transit and just transition spending recommendations.

4. Commit $100 million to support the scaling up of local reuse systems for products and packaging that enable elimination of single-use plastics.

Local, small-scale systems are currently in place in a range of Canadian cities for return and refill of takeout beverage and meal containers, bottled beverages, and some grocery items. However, these

[7] Public Finance for Energy Database. Oil Change International. Available: https://energyfinance.org/#/

[8] Lee, M., Brouillette, C. & Mertins-Kikrwood, H. (2023) Spending What it Takes: Transformational climate investments for long-term prosperity in Canada. Canadian Center for Policy Alternatives and Climate Action Network. Available at: https://climateactionnetwork.ca/wp-content/uploads/Spending-What-It-Takes.pdf

services are not yet widespread and convenient for a majority of Canadians. Providing federal funding would align with the mandate of the Environment and Industry Ministers to develop a fund to support made-in-Canada innovation to scale up reuse, which is an essential tool to achieve the goal of eliminating plastic waste by 2030. It also supports quality local jobs in communities across Canada. Federal support will enable these job-generating local services to improve adoption of reuse and refill options in their existing location as well as for expansion to markets that are currently lacking reuse options. Funding can include grants and loan guarantees to small businesses, municipalities and non-profit organizations that provide reuse services, including reverse logistics, sorting/washing and public awareness.

5. Invest $1 billion over 5 years in the Freshwater Action Plan, starting with $250 million in Budget 2023.

Canada's freshwater resources need stronger ongoing federal support in the form of investments that reflect their critical importance and inherent value. Maintaining healthy waters will significantly improve our resilience to climate change, contribute to national security, and help meet the needs of a growing population and economy.

Budget 2023 must include a modernized Freshwater Action Plan. Despite a commitment of $1 billion over ten years made in 2021, last year's federal budget allocated a mere $19.6 million to the plan. We urge the federal government to keep its promise, and make up for lost time, by investing $1 billion over five years, starting with $250 million for the Freshwater Action Plan in Budget 2023.

6. Invest in good jobs and vibrant communities

As Canada shifts to a zero-carbon economy, it is crucial to recognize that certain workers and communities may be disproportionately impacted, and that adequate support is needed to ensure that the transition is fair. Budget 2023 must prioritize funding for the implementation of the upcoming just transition legislation, including for economic diversification and worker support.

Regardless of its name, the federal just transition legislation should establish a dedicated minister and institution to develop and implement a national just transition strategy, and an independent advisory body to guide the government's work.[9] Budget 2023 must allocate sufficient funding for staffing and resourcing of this dedicated institution, as well as for the advisory body to carry out its consultative and advisory duties.

The upcoming just transition legislation must set up mechanisms for regional, sectoral and local just transition planning, for which budget 2023 must allocate $15 billion per year[10] to be put toward economic diversification projects in communities confronting the transition away from fossil fuels.

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[9] Hulse, M. (2023) Proposals for the Canadian Just Transition Act. Ecojustice. Available at: https://ecojustice.ca/wp-content/uploads/2023/01/2023-01-23-Proposals-for-the-Canadian-Just-Transition-Act-Final.pdf

[10] Lee, M., Brouillette, C. & Mertins-Kikrwood, H. (2023) Spending What it Takes: Transformational climate investments for long-term prosperity in Canada. Canadian Center for Policy Alternatives and Climate Action Network. Available at: https://climateactionnetwork.ca/wp-content/uploads/Spending-What-It-Takes.pdf

Finally, $100 million per year[11] should be provided for worker support, to assist workers who may be impacted by the transition and to ensure that they have the resources they need to retrain and transition into new roles.

These investments will help to mitigate the effects of the transition on workers and communities and ensure that everyone has the opportunity to participate in and benefit from the transition to a zero-carbon economy.

[11] Ibid.