



***Budget 2009:  
Environmental Impact  
Summary and Analysis***

**March 2009**

***Member Organisations***

**Bird Studies Canada  
Canadian Environmental Law Association  
Canadian Parks and Wilderness Society  
Centre for Integral Economics  
David Suzuki Foundation  
Ducks Unlimited Canada  
Ecojustice Canada  
Environmental Defence  
Équiterre  
Friends of the Earth  
Greenpeace Canada**

**International Institute for  
Sustainable Development  
MiningWatch Canada  
Nature Canada  
Nature Conservancy of Canada  
Pembina Institute  
Pollution Probe  
Sierra Club Canada  
Social Investment Organization  
World Wildlife Fund Canada**



## **Overview**

The 2009 federal budget included some important advances towards environmental sustainability, but made little progress on most priority environmental budgetary opportunities, and was most notable for failing to use its \$33 billion stimulus package to expedite the transformation of the Canadian economy into a dynamic, environmentally-restorative economy. It also weakened critical environmental protection laws. The net result is that Canadians will face unnecessarily high financial, environmental and social costs over the coming years.

The **Green Budget Coalition**, active since 1999, brings together Canada's leading environmental and conservation organisations to assist the federal government to develop and implement strategic budgetary and fiscal measures critical to long-term environmental sustainability. It focuses on developing priority budget recommendations for each annual federal budget.

On the four most critical environmental opportunities<sup>1</sup> identified by the Green Budget Coalition, the budget made satisfactory progress on only half of one, that of scaling up both energy efficiency (yes) and renewable energy (no). On the other three priority areas, the budget made relatively minor progress on safeguarding Canada's waters and watersheds, and achieved no substantive progress on implementing effective carbon pricing, or on conserving Canada's treasured oceans and lands.

The budget did direct important funding to: home energy efficiency, including social housing; water infrastructure on First Nations reserves; inter-city train transportation; national parks infrastructure; addressing contaminated sites; and natural capital indicators. There is also the potential for substantial progress on clean energy technology and green infrastructure, depending on how specific funds are allocated. In the context of a \$33 billion stimulus budget, though, these are relatively modest measures.

This budget stands out most for missing a unique opportunity to utilise this huge \$33 billion expenditure to expedite the transformation of the Canadian economy into a globally leading, environmentally-restorative economy, and to create green jobs in Canada. Instead Canada was immediately left lagging far behind the U.S. in deploying clean energy that fights global warming. Canadians will pay for this shortsighted approach over future years in a deteriorated environment, in reduced health, and in higher taxes - for costs that could have been avoided, and to compensate for potential economic activity that did not occur.

The budget also created a very real risk of further environmental damage through its commitment to amending and streamlining the Navigable Waters Protection Act, the Fisheries Act and the Canadian Environmental Assessment Act, changes which will weaken the federal government's ability to protect our land and water ecosystems, and to create new policies to promote sustainable development.

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<sup>1</sup> The Green Budget Coalition's *2009 Budget Recommendations* are available at [http://www.greenbudget.ca/pdf/GBC\\_2009.pdf](http://www.greenbudget.ca/pdf/GBC_2009.pdf). These recommendations were submitted widely within the Government of Canada in November 2008, including to Prime Minister Harper, Finance Minister Jim Flaherty, Finance Canada officials, and all MPs. The Coalition elevated Renewable Energy and Energy Efficiency to be a priority recommendation subsequent to the document's printing, and communicated this to Finance Canada.

## **Detailed Environmental Impact Summary and Analysis**

*The following pages highlight, in more detail, how effectively the 2009 federal budget<sup>2</sup> addressed the Green Budget Coalition's priority recommendations<sup>3</sup> and the requirements for greening Canada's economy. They also draw upon a report by Sustainable Prosperity<sup>4</sup> comparing proposed stimulus measures for their combined economic and environmental benefits.*

### **Addressing Climate Change and Sustainable Energy Security**

#### *Carbon Pricing*

The 2009 federal budget made no progress on putting an adequate price on greenhouse gas (GHG) emissions, the most important budget measure required for addressing climate change. Recommendations for a broad-based carbon price in Canada have come from the National Round Table on the Environment and the Economy (NRTEE), the Canadian Council of Chief Executives, the Canadian Association of Petroleum Producers, and many other expert observers. The NRTEE's analysis made clear that delays in implementing a carbon price will require a higher carbon price and greater economic costs to reach the same targets.

#### *Greening Canada's Energy Supply*

It was very disappointing that Budget 2009 did not provide new funding for the EcoEnergy for Renewable Power program, the major federal support mechanism for renewable energy in Canada. This program provides a one cent per kilowatt-hour incentive for electricity production over ten years for wind, biomass, low-impact hydro, geothermal, solar, photo-voltaic, and ocean energy projects. The broad interest in investing in renewable energy has meant that the program has been massively over-subscribed; the lack of new funds indicates the program will run out of funds in 2009 instead of 2011, jeopardizing renewable energy investment in Canada, and allowing billions in renewable energy investments to go to other countries instead. Over 1,500 MW of renewable energy projects — representing private investment of over \$3.5 billion — have been jeopardized.

More positively, Budget 2009 did allocate \$1 billion (over 5 years) to a Green Infrastructure Fund, for projects that support “a focus on the creation of sustainable energy” and “contribute to improved air quality and lower carbon emissions.” The benefits of this funding are currently uncertain, as they will depend on the program's yet-to-be-determined criteria, and the specific projects that apply for and receive it's funding.<sup>5</sup> The only example given was modern energy

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<sup>2</sup> Department of Finance Canada (January 27, 2009): *Canada's Economic Action Plan, Budget 2009*.

<sup>3</sup> The Green Budget Coalition's four priority recommendations for the 2009 budget were: Effective Carbon Pricing, Safeguarding Canada's Waters and Watersheds, Conserving Canada's Oceans and Lands, and Renewable Energy and Energy Efficiency. *Meeting the Challenge: 2009 Budget Recommendations* is available at [http://www.greenbudget.ca/pdf/GBC\\_2009.pdf](http://www.greenbudget.ca/pdf/GBC_2009.pdf). (Renewable Energy and Energy Efficiency was elevated to “priority” status subsequent to the document's printing.)

<sup>4</sup> Sustainable Prosperity (2009): *Building a Green Economic Stimulus Package for Canada*. Sustainable Prosperity is an important “new research-policy initiative aimed at building a healthy environment and economy, by making markets work for the environment.” (p. iii). The report graded measures using economic criteria (~50%), environmental criteria (~40%), and policy criteria (~10%). (p. 26).

<sup>5</sup> *Budget 2009* indicates that “Funding will be allocated based on merit to support green infrastructure projects on a cost-shared basis.” (p. 145).

transmission lines, whose environmental benefits would vary substantially depending on their location, particularly to what degree they facilitate greater renewable energy use and reduced demand for electricity from coal and nuclear sources.

### *'Carbon Capture and Storage' and other Energy Technologies*

Budget 2009 indicates substantial financial and tax assistance will be provided to carbon capture and storage (CCS) projects. It is likely that CCS will receive the major portion of \$1 billion allocated (over 5 years) to support “clean energy technologies”, including \$150 million for research, and \$850 for the development and demonstration of promising technologies.<sup>6</sup> The budget also states an intention to provide tax benefits to CCS via an accelerated capital cost allowance (ACCA) for assets used in CCS.<sup>7</sup>

While the advancement of CCS is important for addressing Canada’s GHG emissions, CCS will only be viable if an adequate price is implemented for carbon emissions, and such a pricing structure could make CCS viable without public subsidies. The value of this energy technology funding, which could be important for bringing new technologies to market and making them commercially viable, will likely be diminished by the focus on CCS.

### *Home Energy Efficiency*

Importantly, the Government acted on the Green Budget Coalition’s energy efficiency recommendation. It allocated \$300 million (over 2 years) for home retrofits, to help finance 200,000 home retrofits. This is a prime means to reduce Canadians’ energy costs and Canada’s overall energy consumption. In addition, some portion of \$1 billion (over 2 years) dedicated to renovations to social housing, depending on matching provincial contributions, will go to energy efficiency retrofits.<sup>8</sup> Such retrofits will be particularly valuable as they fill a longstanding gap where the tenants are the least able of any Canadians to afford unnecessarily high energy costs, yet where neither the tenants nor the landlords have both the financial incentive and capacity to carry out the necessary retrofits.

A 15% Home Renovation Tax Credit (HRTC), projected to cost up to \$3 billion over two years, will likely have both beneficial and regressive impacts on home energy efficiency. On the plus side, it will further decrease the cost of home efficiency retrofits by combining with other retrofit subsidies. On the negative side, it will subsidize any kind of home renovation, including home expansions and heated garages, meaning many could actually lead to increased energy consumption.

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<sup>6</sup> This support is expected to generate a total investment in clean technologies of at least \$2.5 billion over the next five years. *Budget 2009*, p. 179. Finance Canada officials have indicated that “there is no pre-determined expectation as to the source of the matching funds – this will depend on the particular projects supported through the Fund, which are yet to be determined.” (email correspondence - February 5, 2009).

<sup>7</sup> The costs of this tax benefit will depend substantially on the specific assets chosen to be eligible. Finance Canada officials (email correspondence - February 5, 2009).

<sup>8</sup> The portion of this \$1 billion which finances retrofits will be determined by the respective provincial and territorial housing agencies, with regards to the projects they each fund. The funding will be delivered through the Affordable Housing Initiative (AHI), under which the provinces and territories cost-match the federal investment. Finance Canada officials (email correspondence - February 5, 2009). See also *Budget 2009*, p. 133.

Unfortunately, there were no apparent efficiency standards attached to an additional \$1.075 billion allocated to housing in the North and on First Nations reserves, and for low-income seniors and people with disabilities. It would be an unjustifiable waste of energy and taxpayer dollars if this new housing needed retrofits soon after they were built.

### *Greening Transportation Infrastructure*

The budget made a notable renewed commitment to improved inter-city rail transportation - an important, efficient, environmentally friendly transportation option. A sum of \$407 million was allocated to VIA Rail for infrastructure and other capital improvements, particularly for improving efficiencies and reducing travel times in the Montreal-Ottawa-Toronto corridor, and for upgrading stations across Canada. The budget also provided \$7.9 million to two First Nations railways for new capital projects, along with \$72 million for rail safety measures.

Unfortunately, the budget also allocated money to twin the Trans-Canada Highway in numerous places across Canada, and for bridge rehabilitation, funding that will subsidise and increase automobile-related emissions, exacerbating health problems and climate change risks. Furthermore, in locations where highways were doubled, there was no financing for alternative strategies to provide the desired access with less cars, such as more flexible transit service and safe, formalised “hitchhiking” infrastructure.

### *Mining and Nuclear Energy*

The Mineral Exploration Tax Credit (or ‘super flow-through shares program’), a temporary measure instituted in 2000 to subsidize mining exploration, was renewed once again, this time until March 31, 2010, suggesting short-term political interests again held sway over environmental concerns. Such mining exploration often causes substantial social and environmental damage, despite applicable federal and provincial regulations, and makes it difficult to establish new protected areas. Moreover, the 2009 budget did nothing to address the imbalance between the tax benefits and expenditures provided to promote the virgin extraction of minerals versus much more environmentally sound alternatives of conservation and recycling of metals.

It was also disappointing that \$351 million was allocated to AECL, subsidizing nuclear energy and the development of the Advanced CANDU Reactor. These funds would provide greater benefits if invested in renewable energy and energy efficiency, sustainable energy sources without the enormous waste, harm to aquatic ecosystems, and liability risks associated with nuclear energy.

### *Other Tax Measures with Potential Efficiency Benefits*

One tax measure with potentially positive environmental impacts is the extension of the temporary 50-per-cent straight-line accelerated capital cost allowance (CCA) rate to investment in eligible manufacturing or processing machinery and equipment undertaken in 2010 and 2011.<sup>9</sup> This could help businesses in the manufacturing and processing sector to restructure and retool for greater efficiency and to reduce pollution and waste. Similarly, a temporary 100% CCA for

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<sup>9</sup> Estimated cost: \$320 million in 2011–12, and \$990 million in total from 2011–12 to 2013–14. *Budget 2009*, p.168.

computer equipment could help increase business efficiency. Both measures have the downside of increasing waste where insufficient structures exist to charge fair rates for garbage disposal, to increase recycling, and to mandate producers to take back their products at the end of their life cycle.

## **Healthy Communities – Safeguarding Waters and Cleaning up Toxics**

### *Safeguarding Canada's Waters and Watersheds*

Modest important steps were made on renewing Canada's aging water and wastewater treatment systems. These steps were small, however, compared to what is needed to ensure the health of Canadians and their environment, and particularly so in the context of billions of dollars in new infrastructure investment. The result of this inaction is that Canadians will face even greater health and infrastructure costs down the road.

Broad water conservation and efficiency, alongside investments in water and wastewater infrastructure would create jobs now while saving water, energy, and money, now and in the future. Canada's water infrastructure deficit is huge. Much more investment needs to be made; many more jobs could have been created.

It was very encouraging to see \$165 million allocated (over 2 years) for completing water and wastewater infrastructure projects on 18 First Nations Reserves.<sup>10</sup> It is also positive that the \$33 billion Building Canada Fund (set up in the 2007 budget) will be providing funding for water treatment in the Yukon, and for upgrades to water and sewer systems in Québec. Two years later, however, it is still unclear whether a substantial portion of this overall infrastructure funding has been, or will be, specifically earmarked for water and wastewater projects across Canada, as it should be.

The budget also announced two billion dollars in loans to municipalities for housing-related infrastructure. These loans, if directed effectively, could improve water lines and thereby reduce water loss and the associated water supply and treatment costs.

### *Cleaning up Contaminated Sites*

The budget allocated \$80.5 million in increased funding over the next two years to manage and assess federal contaminated sites, facilitating remediation work totalling \$165 million over two years. Sustainable Prosperity's report identified such clean-ups as one of the most promising types of stimulus measures. However, while the additional funding is an important improvement, these funds fall well short of what is needed, given that there are nearly 4,000 federal contaminated sites in need of remedial action<sup>11</sup> and that estimated federal liabilities in 2003 were \$3.4-billion.<sup>12</sup>

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<sup>10</sup> This \$165 million is part of \$515 million allocated to "ready-to-go" First Nations community infrastructure projects. *Budget 2009*, page 147-148, 160.

<sup>11</sup> From Contaminated sites database, sites classified as requiring or likely requiring action.

<sup>12</sup> [http://www.tbs-sct.gc.ca/rma/eppi-ibdrp/hrdb-rhbd/dep-min/ec/fcsaap-paalcf/description\\_e.asp](http://www.tbs-sct.gc.ca/rma/eppi-ibdrp/hrdb-rhbd/dep-min/ec/fcsaap-paalcf/description_e.asp).

## Nature Conservation

This budget largely ignored the importance of nature conservation to Canadians' economic well-being.

### *Conserving Canada's Treasured Oceans and Lands*

Budget 2009 made no progress on the Green Budget Coalition's priority nature recommendation: safeguarding our marine and terrestrial ecosystems in the face of urgent pressures from climate change and other environmental stresses.

### *Parks Infrastructure, Northern Research, & Forestry*

The budget did partially fund the Green Budget Coalition's recommendation for infrastructure in national parks, providing \$75 million (over 2 years) to improve degrading infrastructure such as roads, visitor centres and campgrounds. Another \$75 million was provided to Parks Canada for upgrades to national historic sites.

As part of a research initiative in the North, the budget allocated \$2 million for a feasibility study towards developing a "world-class research facility that will contribute to achieving the goals of the Government's science and technology strategy."<sup>13</sup>

The budget also allocated \$170 million to a variety of forestry initiatives, but without any assurances of advancing Canadians' environmental and sustainability concerns.

## Threats to Environmental Protection Laws

There is a substantial risk that this budget will actually result in ongoing damage to Canada's ecosystems through its commitment to amending and streamlining the Navigable Waters Protection Act, the Fisheries Act and the Canadian Environmental Assessment Act,<sup>14</sup> and the inclusion of these changes in the *Budget Implementation Act*, Bill C-10. These environmental protection laws are critical tools for sustainable development and any weakening of them for perceived short-term gain may lead to much greater long-term costs.

It is highly inappropriate that the budget bill included such measures weakening environmental protection, without any advance public consultation, particularly when the Government has announced plans to bring forward a bill this spring reforming the *Canadian Environmental Assessment Act*. Furthermore, the Government's effort to rush these changes through in the budget bill seems to contradict the budget's assertion that, "environmental protection will not be compromised."<sup>15</sup>

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<sup>13</sup> *Budget 2009*, p. 150.

<sup>14</sup> *Budget 2009*, p. 144.

<sup>15</sup> *Budget 2009*, p. 143.

## **Green Governance**

Indicators of environmental health provide important knowledge to guide policy and regulatory decisions, and to help Canadians gauge progress on critical environmental concerns. The Government smartly renewed the three current environmental indicators, on water quality, air quality, and greenhouse gas emissions, but only did so for one year (\$10 million) – an uncertain commitment - and did not make the Green Budget Coalition’s recommended expansion to include forest cover and wetlands.

## **Assessing Stimulus Measures**

The four most promising types of stimulus measures highlighted by Sustainable Prosperity (SP) for their combined economic and environmental benefits were: 1) building retrofits (homes, federal buildings, public buildings); 2) green infrastructure – sewage plants, water-works, public transit; 3) clean-up of toxic sites; and 4) investments in clean energy (particularly converting the existing ACCA for energy and energy-efficiency assets into a refundable tax credit).<sup>16</sup>

The 2009 federal budget did address each of these four broad areas. It put between \$300 million and \$1.3 billion into home and social housing retrofits, but nothing directly for federal building retrofits<sup>17</sup>. It also allocated at least \$1.1 billion into such ‘green infrastructure’, \$80 million for addressing contaminated sites, and \$1 billion (over 5 years) into a Green Infrastructure Fund that could advance clean energy production and transmission.

However, these amounts, roughly totalling \$3 billion over 5 years, are still less than 10% of the total new spending, and not nearly sufficient to stimulate an environmental transformation of Canada’s infrastructure and economic activity, nor to capitalise on the potential for green job creation. SP’s report indicated that at least \$15 billion in federal stimulus investments could be made on these four types of measures, generating over 160,000 jobs in the coming year.

Unfortunately, the budget also financed the three lowest-graded measures in the report. At least \$351 million was allocated to traditional power generation infrastructure (nuclear), at least \$217 million went to shipping/port infrastructure expansion, and, while at least \$400 million was directly assigned to roads and bridges, billions of dollars more are available for, and likely to go towards, such expenditures. In particular, \$4 billion was allocated to a new Infrastructure Stimulus Fund to fund “infrastructure rehabilitation” work proposed and cost-matched by the provincial, territorial, and municipal governments. This “rehabilitation” criteria means these funds are much more likely to flow towards SP’s latter lower-benefit measures rather than the higher-benefit measures highlighted above.

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<sup>16</sup> Sustainable Prosperity (2009), p. 37, 39.

<sup>17</sup> The budget did allocate \$323 million to “the restoration of federally owned buildings.” (p.123).

## Overall Implications for Greening Canadian Economy

This budget's prime environmental legacy will be a unique missed opportunity, of failing to capitalise on the huge environmental and economic benefits available by utilising \$33 billion in stimulus funding to expedite the transformation of the Canadian economy into a globally leading, environmentally-restorative economy. Prime Minister Harper himself had previously asserted that "we cannot separate environmental and economic policy."<sup>18</sup>

This budget's investment in renewable energy and energy efficiency was less than one-sixth that of the United States in its recent economic recovery bill, on a per capita basis.<sup>19</sup> Much of the budget's major funding components, including infrastructure and the forestry and auto sectors, came without environmental conditions attached, likely reducing the collective economic and environmental benefits to be generated from these funds.

The transformation to a globally-leading, environmentally-restorative economy requires each of the following actions: a strong federal signal that polluters will pay for the environmental and health damage they cause; financial transfers to governments and subsidies to industries made conditional on achieving defined environmental outcomes; and major investments in renewable energy and water and wastewater infrastructure. This budget did little in any of these areas.

While the budget's funding for energy efficiency, water infrastructure, and rail transportation were all valuable measures, though on a small scale, the lack of a comprehensive environmental economy approach to the budget is extremely disappointing at a time when billions of dollars were allocated that will have economic and environmental impacts for decades to come. The gap between the Prime Minister's wise words (*above*) and his latest budget suggests the Government does not have the political will to do what is necessary for the long-term benefit of Canadians.

Canadians will pay for this shortsighted approach over future years in a deteriorated environment, in reduced health, and in higher taxes - for costs that could have been avoided, and to compensate for potential economic activity that did not occur.

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<sup>18</sup> AFP. <http://www.canada.com/topics/technology/science/story.html?id=beae4406-b427-4197-9c6f-27c1c915a3d7>  
31 October 2008: "Canada to seek continent-wide approach to climate change".

<sup>19</sup> Pembina Institute (February 19, 2009). *Obama to invest over six times more per capita in renewable energy and energy efficiency than Canada*, media backgrounder. <http://www.pembina.org/pub/1786>.