

Environmental Tools:

Ecological Fiscal Reform

What Ecological Fiscal Reform (EFR)?

In simplified terms, EFR is a government strategy, not a specific tool per se, that shifts fiscal policy from supporting undesired environmental outcomes to supporting positive ones.

More specifically, EFR is a strategy that redirects a government's fiscal policies to create an integrated suite of incentives and disincentives to support the shift to sustainable development. Fiscal policy refers to the ways in which governments collect (e.g. through taxes and user fees) and spend money (e.g. through grants, tax credits, exemptions, refunds, rebates, and accelerated capital cost allowances). To achieve EFR, fiscal policy is adjusted to better reflect environmental costs and benefits, and results in environmentally beneficial behaviour.

Ecological fiscal reform adjusts prices and/or operational costs to better reflect environmental costs and benefits. By giving the right set of price signals, government enables the optimal allocation of resources to achieve environmental and economic policy objectives.

Where is EFR used?

There is a global trend towards increased use of fiscal policy to achieve environmental objectives. In Canada, EFR has focused largely on subsidy and expenditure programs. The emphasis here has been on providing incentives – through the use of tax credits, exemptions or reductions – or accelerated capital-cost allowances, such as for environmentally sensitive investments and purchases.

Examples of EFR tools used in Alberta

Grants

The *Soak Up the Savings Program* offered a time-limited cash incentive of \$50 to Albertans who replaced and recycled their old washing machines with a water and energy efficient model. The allocated funds supported the purchase of economically and environmentally efficient machines, which created significant energy and water savings.

Environmental Taxes or Charges

Alberta Environment has a program to administer an environmental charge on electronic products, tires and lubricants, and oil and filters to ensure proper waste management practices. As of October 2004, televisions, computers and related equipment that were going into Alberta's landfills began to be collected, reused, recycled and turned into new products and economic opportunities for Albertans. An environmental fee, ranging from \$5 to \$45 (depending on the item), was placed on each product included in the electronics program.

Provincial Royalty Regimes

The provincial royalty regimes for coal and oil sands products are defined in the *Mines and Minerals Act*, and the subsequent *Coal Royalty Regulation* and *Oil Sands Royalty Regulation*. Under both regimes, royalty is determined using a revenue-less-cost calculation with reclamation being an allowed cost. In general, royalty rates are set with the expectation that reclamation is being performed during the time the project is generating revenue. Thus the royalty system encourages completion of reclamation during the operating life of the mine.

Permit Trading

In partnership with Environment Canada, Alberta Climate Change Central promoted the *Pilot Emissions Removals, Reductions and Learnings* (PERRL) program. This initiative provided Canadian companies, organizations and individuals an economic incentive to take immediate steps to reduce greenhouse gas emissions.

Tax Incentives

The government of Alberta matched the federal government's accelerated capital cost allowance for environmental technologies and the Canadian renewable and conservation expenses tax incentive.

Low-Interest Loans

ME First! was a four-year, \$100 million interest-free loan program administered by Climate Change Central that was designed to help municipalities achieve climate change related initiatives. It funded a diversity of community based energy efficient infrastructure development projects throughout Alberta.

Deposit-Refund Schemes

The Alberta deposit-refund scheme for beverage containers establishes a financial incentive for consumers to return used bottles for reuse and recycling. The deposit-refund scheme has proven exceptionally effective in improving bottle diversion and recycling rates since its inception.

Tool Performance:

Pros

- Can achieve environmental benefits through price signals and market efficiency.
- Can be used to account for the full cost of environmental impacts associated with the production, consumption and disposal of a product or service.
- Can reduce government program implementation costs, raise government revenues and reduce budgetary outlays, thus reducing the costs (both to government and industry) of meeting environmental objectives.
- EFR provides the means to distribute costs associated with environmental damage and resource use to the party or parties responsible.
- EFR has the potential to create environmental improvements and economic gains.
- EFR can be used to drive innovation and encourage those activities and practices at the forefront of the environmental performance and efficiency curve, such as renewable energy, ecologically certified forest and agricultural products, R-2000 and C-2000 buildings, tire recycling and hybrid-electric or hydrogen fuel cell vehicles.

Cons

- Many attempts to reform fiscal policy to achieve environmental outcomes fall short because they tend to be implemented as isolated initiatives.
- If existing government policy measures are directed to achieve outcomes that are not environmentally favourable, EFR efforts may be contradicted and ineffective.
- May not provide the best means to achieve immediate environmental benefits, as there is a time lag between the implementation of an EFR tool and its outcomes.