Environmental Tools:

Environmental Subsidies

What are environmental subsidies?

Subsidies are financial assistance given to organizations and companies as an incentive to change their behavior or to help offset the costs of mandatory environmental standards. Subsidies are usually provided by government agencies, but may also be provided by other parties.

Subsidies typically come in the form of

- Grants – non-repayable sums of money given to an individual or group for environmental reasons.
- Loans – rates are below market rates (called soft loans) and/or loan is guaranteed.
- Tax relief – given through tax or charge exemptions, rebates or accelerated depreciation allowance for environmentally desirable behavior.

Where are they used?

Subsidies are appropriate to:

- Encourage the use of eco-friendly substitute products and discourage the use of products that pose relatively low environmental risks.
- Accelerate environmental performance that could not otherwise be afforded, and then reduce or eliminate subsidy once the necessary changes are accomplished.
- Reduce and share the investment risk in innovative and environmentally desirable technology, which may not have adequate access to traditional sources of venture capital.

Most often subsidies are used to support public and private-sector pollution prevention and control activities, the cleanup of contaminated industrial sites, farming and land preservation, consumer product waste management, alternative energy fuels, clean-running cars and municipal wastewater treatment facilities.

<u>The Alberta "Me First!" Program</u>

The ME *first!* program was launched in September 2003 by Alberta Municipal Affairs and Alberta Environment in support of the Alberta government's action plan on climate change. ME *first!* was a four-year, $100 million interest-free loan program administered by Climate Change Central that was designed to help municipalities:

- achieve energy savings;
- reduce greenhouse gas emissions; and,
- replace conventional energy sources with renewable or alternative sources.

The Federal Wind Power Production Incentive (WPPI)
WPPI was an incentive program to support the construction of 1000 MW of wind energy capacity by 2007. The WPPI was created to help reduce national greenhouse gas (GHG) emissions by encouraging the development of emission-free wind energy. The incentive was designed to establish wind energy as a full-fledged competitor in the electricity marketplace.

The incentive program provided long-term secured revenue and was available for qualifying participants in their first ten years of production. It was designed to encourage capital investments in wind energy projects in all regions of Canada.

Tool performance:

Pros

- Capable of achieving environmental protection goals.
- Can effectively target specific pollution sources or environmental issues.
- Can be applied to compensate for inequity between sources as a result of regulatory obligations.
- Relatively small subsidies can provide an effective means to help overcome an individual's lack of awareness towards a particular environmental issue and opportunities to save money (e.g. energy conservation).

Cons

- Often criticized because government provides the subsidy, and the taxpayer is ultimately helping to offset the costs that should be the responsibility of the polluter, therefore not supporting the "polluter pays principle".
- The environmental benefits from subsidy programs depend on the response rates of those eligible for the subsidies.
- Difficult to predict participation and environmental outcomes.
- High budgetary costs to government.
- May stimulate ineffective or inappropriate levels of activity in a particular area that are not in line with intended goals of a subsidy program.
- It can be difficult to establish who legitimately deserves a subsidy and who does not, especially given the risk that some recipients were planning to do environmentally beneficial activities, with or without, the subsidy.
- May not provide the most cost effective way for government to achieve desired environmental policy goals.

Special considerations:

Government and corporate polices often create financial incentives that are meant to stimulate economic development, but because of unintended side effects, can impact the environment. To prevent and mitigate the environmental impacts of financial policies, an Environmental Impact Assessment (EIA) must be carried out before major policy changes are put in place. For example, Canada’s Commissioner of the Environment and Sustainable Development has an ongoing audit program evaluating the environmental consequences of federal programs. Therefore, it may be more effective to eliminate environmentally negative subsidies versus devising environmentally beneficial ones to achieve a specific environmental policy goal.