

Improving Economic Stimulus & Environmental Assessment Policy for a Greener Economy in Canada

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Abstract

Canada's reaction in 2009 to the economic recession demonstrated a lack of commitment to a green economy, and highlighted that the federal Environmental Assessment (EA) process needs to be repaired to effectively promote a transition to a sustainable economy. Canada's economic stimulus fund for green industries represented only 0.17% of Canada's gross domestic product (tenth among the G20), including inadequate incentives for renewable energy sectors. In conjunction with the stimulus funds, Canada quickly changed the *Canadian Environmental Assessment Act* (CEAA) to exempt infrastructure projects that receive stimulus funds from undergoing a federal EA. This action hurt an already weak CEAA process that has needed repair for years and is due for revisions in 2010 as part of a seven-year review. This paper argues that a good publicly supported EA process is essential to support emerging green industries because (a) EA can be the measuring stick to define what is "green", and (b) a good EA process facilitates the pursuit of the "social licence" required for new and emerging green industries. Finally, it is recommended that policymakers involved in amending the CEAA should consider how an EA process can become a tool for leading a transition to a greener economy.

1.0 Introduction

In Canada, as in much of the world, the recent economic recession presented an important opportunity for promoting a greener economy. As massive government spending became a key focus for stimulating the economy, questions arose about who should receive the inserted new capital, and to what ends. For proponents of a global transition to a more environmentally sustainable economy, the answers were clear: use the stimulus funds to generate growth and jobs in low-carbon energy-efficient industries. This paper will examine two elements of Canada's reaction to the recession that show that Canada is not meaningfully pursuing this opportunity:

1. Canada is failing to provide enough stimulus funding to the growth of new and emerging green industries; and
2. An already weakening Environmental Assessment (EA) process in Canada was further damaged by a federal decision to exempt projects that receive stimulus funds from undergoing EA. This is important because a good EA process is essential to facilitate the growth of emerging green industries.

I will argue that, not only is additional funding to green industry required, but a focused repair of the EA infrastructure in Canada is necessary for the development of a green economy. I recommend that EA policy in Canada can be rebuilt as a tool to facilitate the transition of the economy towards a greener future.

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2.0 Why Canada's Stimulus Fund Is Failing to Promote a Green Economy

In reaction to the global economic crisis, Canada proposed a fiscal stimulus plan in January 2009 that budgeted for approximately \$30 billion CDN in government stimulus spending. A total of approximately \$2.3 billion CDN¹ in green stimulus funds over the next five years was part of Canada's *Economic Action Plan*, including:

- \$1 billion for "sustainable green" infrastructure projects over the next five years;
- \$300 million over two years for a retrofit program for homeowners; and
- a Clean Energy Fund providing \$850 million over five years for the demonstration of promising clean energy technologies, and \$150 million over five years for clean energy research and development.

The 2010 budget released in March did not provide much more support for green industry, apart from modest incentives for the wood waste bio-energy sector.² No new federal money was provided for public transit projects.

The 2009 stimulus plan and 2010 federal budget did not include funding for the ecoENERGY Renewable Power (eRP) program. The federal eRP program began in 2007 to provide funding stimulus to the renewable energy industry in Canada, but all funds have now been fully allocated. A recent industry study concludes that injecting \$1.5 billion CDN into the eRP program could provide incentives for 5.2 gigawatts of new wind energy, with future government revenues more than offsetting the initial funding.³

Among the world's top economies (G20 countries), Canada is ninth in green stimulus spending per capita and tenth in green funds as a percentage of gross domestic product (GDP), according to a September 2009 report by the United Nations Environment Programme (UNEP)'s Green Economy Initiative (GEI).⁴ Green funds are 0.17% of GDP for Canada, while the U.S. is allocating four times more, relative to GDP, to green initiatives (0.7% of U.S. GDP).

The GEI's Green New Deal Policy argues that the right mix of policy actions can stimulate economic recovery and improve the sustainability of the world economy. The policy promotes a global approach to "kick-start the shift to a low carbon world" through the allocation of stimulus spending on green economic sectors such as energy-efficient technologies and renewable energy industries.⁵ The 2009 report "Rethinking the Economic Recovery: A Global Green New Deal"⁶ prepared for UNEP details the reasons why a green economic recovery is a golden opportunity to get the world on track to meet climate change objectives. In early 2009, a UNEP report argued that an investment of 1% of global GDP over the following two years could provide the critical mass of green investment to trigger a significant transformation towards a sustainable global economy.⁷ Canada needs to increase green funding by six times to help reach this target.

Leading up to the release of Canada's stimulus plan, diverse groups were proposing their own plans, including the non-governmental organization PowerUp Canada's *Green Economy Action Fund*⁸ and the Canadian Centre for Policy Alternatives' *Leadership for Tough Times – Alternative Federal Budget Fiscal Stimulus Plan*.⁹ Before the recent 2010 federal budget, the Green Budget Coalition¹⁰ proposed a series of initiatives focused on reducing greenhouse gas emissions, including a priority for investment in clean energy sources through the eRP program.

PowerUp Canada's *Green Economy Action Fund* proposed \$22.7 billion CDN in spending and \$18.6 billion CDN in loans over five years. The spending focused on improving energy efficiency in homes and buildings, and expanding existing public transit infrastructure. The loans focused on providing low-interest financing for renewable energy production, as well as homeowners and businesses to implement green building and renewable energy technologies. The loans to renewable energy producers would be funded in part by a "Green Bonds" system, and would provide incentive for the federal and provincial governments to improve regulatory permitting to attract investment and speed up the production of renewable energy projects. PowerUp Canada's plan received the support of four former Canadian Prime Ministers.

The Canadian Centre for Policy Alternatives called for \$5.8 billion CDN (18% of a total \$33 billion CDN) to accelerate investments in green infrastructure, energy retrofits, and a National Renewable Energy Job Training Fund.

Instead of heeding this advice, Canada is greatly under-spending funds required to stimulate new or emerging green economies. Much of the spending will be committed to maintaining or reviving unsustainable industries that are reliant on a carbon-intensive future. To compound the situation, a continued federal neglect of the renewable energy industry will lead to a competitive disadvantage with the U.S. (including a flow of investments in renewable energy to the U.S.), resulting in a loss of the advances made by the Canadian renewable energy sector in recent years.¹¹

3.0 Why Repairing a Weak EA Process in Canada is Required to Transition to a Green Economy

Soon after Canada's economic stimulus plan was announced, the federal government quickly implemented amendments to the *Canadian Environmental Assessment Act* (CEAA) with the goal of expediting the development of projects receiving stimulus funding. The regulatory changes will result in the elimination of federal EAs for various types of infrastructure projects until 2011 and will likely cut the number of projects undergoing federal EA by over 25% (about 2,000 projects per year).¹² Projects as varied as highways, bridges, and sewer systems have been exempted from federal EA, though a small portion will likely undergo a provincially regulated EA.

During the recession, the political and economic demands of the Canadian government to provide stimulus spending put the government in a position to ensure that stimulus funds would translate quickly into jobs and financial gains. This decision came at a time when the CEAA process had been suffering in a state of disrepair through a long period of unresolved policy issues, to the dissatisfaction of practitioners, industry, and the public.¹³ Canada's decision to eliminate EA for a random assortment of project types was made easier (and publicly more acceptable) by the inability of the CEAA process to provide a mechanism for project EAs to be done in a predictably swift and effective manner. As a result, projects that do not undergo an EA may lack appropriate consideration of potential impacts and application of mitigation, and ultimately risk having a significant impact on social, cultural, and ecological resources. This is a risk that the government was willing to take to get projects into the development pipeline.

In comparison, the U.S. economic stimulus legislation, the *American Recovery and Reinvestment Act of 2009* (ARRA), does not contain an exemption for ARRA-funded projects to acquire EA approvals under the *National Environmental Policy Act* (NEPA). Unlike Canada, the U.S. has ensured that ARRA projects still undergo environmental review, and that federal agencies devote adequate resources to ensure that NEPA review of an ARRA project is quick and follows the shortest existing applicable process. In addition, ARRA has given priority treatment to certain projects, such as renewable energy projects, by requiring them to commence construction by September 2011.¹⁴

The exemption of thousands of projects in Canada from EA hinders a transition to a green economy. A good EA process is required for generating a green economy because an integrated EA framework:

- identifies a project or industry as "green"; and
- promotes project development in emerging green industries because an integrated EA process can streamline approvals for sustainable industries and facilitate the management of social risk.¹⁵

EA should be used as a measuring stick to identify what is "green"

To understand how Canada's EA deregulation hindered the development of a truly green economy, we need to consider that an EA is essential to confirm that a project is "green". The practice of an integrated EA process, involving effective use of Strategic EA and sustainability appraisals, can define what is green (i.e., sustainable) and what is not. In reviewing proposed projects, a regulator should have a mandate to consider the EA from a sustainability perspective, and thereby provide clarity about its contribution to a

green economy. The undertaking of a project without an EA has an unknown positive or negative effect on a green economy.

In Canada's case, can the physical projects earmarked as green projects that receive stimulus funding and do not undergo an EA be considered green? Logically not – especially where there are insufficient existing guidance, standards, and best management practices to undertake the project without risking a significant impact. Herein lies the value of conducting an EA, which has been side-stepped without debate over the trade-offs or risks involved.

Going forward, the establishment of a strong integrated EA process can provide sustainability assurance with meaningful input to generating and monitoring a sustainable economy.

A good EA process is essential for development of emerging green industries

Green industry requires financial incentives to encourage the market forces, but preferential EA policy and resource use approvals may be equally important.

An emerging market needs to find a competitive advantage to prosper – through competitive costs, or favourable policy or regulatory process (reduced “regulatory burden”). Government can build interest in a growing sector of the economy by installing a regulatory process that is clear, efficient and predictable for both industry and the public. For many industries like the renewable energy sector, a favourable regulatory environment and a broad social acceptance of the industry are important for attracting low-risk investment to support the growth of the sector. With today's well-informed and actively-engaged Canadian public, the “social licence to operate” sought by project developers is a form of regulation,¹⁶ and can be best achieved through a good EA process that facilitates public participation and a common understanding of the costs and benefits of a proposed project. As a result, a good EA process will develop trust among investors that an industry can manage the social risk (which translates to financial risk) associated with environmental and social concerns. A good EA process is even more valuable for emerging green industries where the public and regulators use precaution due to a lack of extensive historical EA studies and established mitigation measures.

To many industry proponents, the current EA regulatory environment in Canada is a risk of the worst kind – an unknown one. The federal EA process in Canada does not effectively help to manage the social risks of project development, largely due to procedural inefficiencies, a needlessly complex regulatory framework, under-resourced regulatory agencies, an aversion to public participation, and unpredictable timelines. This confusion does not incite confidence on behalf of investors looking to enter, for example, the Canadian renewable energy sector. At the same time, the public is losing faith in the EA process and project proponents are struggling to achieve the social licence required to develop their projects.¹⁷ The 2009 undermining of the CEAA compounded an already growing distrust by the general public in the usefulness of EA as a tool for promoting sustainability, and sets it further back from a good, publicly supported EA process. If Canada wishes to seriously pursue the development of a green economy, the federal EA process needs to be repaired quickly and strategically.

4.0 Recommendations for Using EA to Promote a Greener Economy

In addition to economic incentives for new and emerging sustainable industries, the policies governing the practice of EA and its associated procedures can be used more effectively in Canada to facilitate the transition to a greener economy. The CEAA process is already due for (likely major) revisions in 2010 as part of a planned seven-year review. Abundant advice exists from various commentators on how to amend the EA process for a more efficient and meaningful regulatory framework. Some of these resources are compiled in the notes.¹⁸

I suggest that the restructuring of the CEAA also consider the Act's role as a potential incentive to promote green industry by balancing preferential regulation and facilitation of social licence. The CEAA exists to protect the environment and should provide preference for environmentally sustainable projects. The CEAA should relieve the regulatory burden wherever possible for sustainable industry, while still

promoting good EA principles and garnering public trust in the process. For a class of green projects with predictable impacts and mitigation, the risk of a less rigorous EA may be justified because of a clear trade-off for an improvement in sustainability. This approach would stimulate a green industry through increased attraction to investors or public spending, and a quicker and less expensive permitting process. A Strategic EA with public input would clarify the net benefits for sustainability of such an initiative.

The essence of this idea was expressed by participants in a 2008 multi-stakeholder workshop to explore improvements to the performance of the federal regulatory system:

“[T]he regulatory system must also be efficient at approving projects that directly contribute to Canada’s climate objectives, such as clean energy projects and large public transit projects. Improvements to the efficiency of the regulatory system for such projects will help Canada achieve its carbon emission reduction objectives.”¹⁹

Strategic streamlining of regulation could be completed by using a similar approach currently used for Class Screenings in the CEAA, and could be linked to the results of regional planning using Regional Strategic EA. For example, well-sited and relatively benign renewable energy projects could be identified through a Regional Strategic EA and allowed to follow a streamlined regulatory process for a class of green project types.²⁰

In recent years, the Province of Ontario has used both financial stimulus and policy tools to stimulate the green energy industry, an approach that could be adopted at a national level. Ontario provides feed-in tariffs as established by their *Green Energy Act* and has a Class Environmental Assessment for Waterpower Projects that aims to streamline the provincial regulatory process for this class of renewable energy projects.²¹

Additional ideas for EA policy and regulatory initiatives to promote green industries include:

- Integration of a sustainability assessment in project-level and strategic EA;
- Development of common best practices and mitigation measures that are typical for a renewable energy project type, and thereby streamline the EA approval process²²; and
- Requiring a carbon credit valuation through a greenhouse gas assessment as part of a project EA to inform a possible carbon trading system

5.0 Conclusion

The Canadian reaction to the economic recession demonstrated more than just a lack of federal interest in establishing a green economy. It highlighted that this transition would need both additional financial incentive and the support of a good EA process with public buy-in. Through an examination of this case, I have recommended that preferential EA policy and streamlined regulation for green industries can be effective tools for stimulating a green economy.

Many citizens hope that Canadian politicians will soon realize that this transition makes sense politically, as the concern for sustainability and the popularity of green jobs has been growing dramatically.²³ The 2010 revisions to the CEAA need proactive EA policymaking to consider the future global economic trends, the immediate need for Canada to transition to a greener economy, and the role that EA can play in facilitating that move.

Notes

¹ The stimulus plan does not include all funding that Canada has put towards green industry, such as the \$1.5 billion CDN portfolio of clean technology projects supported by federal funding agency *Sustainable Development Technology Canada* that has been a positive green stimulus over the past decade – but will run out of funds shortly since it was left out of the 2010 federal budget.

² McCarthy, Shawn. Budget puts climate action on ice. *Globe and Mail*: 4 March 2010.

³ GE Energy Financial Services, 2010. Press Release: “Canadian government revenues from wind farms more than offset federal financial incentive, GE study estimates.” Ottawa, Canada, 14 January 2010.

⁴ UNEP, 2009. *Global Green New Deal: An Update for the G20 Pittsburgh Summit*. September 2009.

⁵ The five critical areas of green investment for the Global Green New Deal are: (1) Energy efficiency in old and new buildings; (2) Renewable energy; (3) Sustainable transport technologies; (4) The planet’s ecological infrastructure, including freshwaters, forests, soils and coral reefs; and (5) Sustainable agriculture.

⁶ Barbier, Edward. 2009. “Rethinking the Economic Recovery: A Global Green New Deal”. Report prepared for the Economics and Trade Branch, Division of Technology, Industry and Environment, United Nations Environment Programme. February, 2009.

⁷ UNEP, 2009. Press Release: “Realizing a “Green New Deal” UNEP-Commissioned Report Underlines How Environmental Investments Can get the Global and National Economies Back to Sustainable Work.” Nairobi, 16 February 2009.

⁸ PowerUp Canada, 2009. *The Green Economy Action Fund: Investing in a cleaner, more prosperous Canada*.

⁹ Canadian Centre for Policy Alternatives, 2009. *Leadership for Tough Times – Alternative Federal Budget Fiscal Stimulus Plan*.

¹⁰ The Green Budget Coalition (GBC) comprises 21 of Canada’s environmental and conservation organizations -

<http://www.greenbudget.ca/>

¹¹ De Souza, Mike. Canada falling behind U.S. in clean-energy efforts: experts. *Canwest News Service*: 27 December 2009.

¹² Kwasniak, Arelene. 2009. *The Eviscerating of Federal Environmental Assessment in Canada*. University of Calgary.

¹³ Stratos Inc., Workshop Summary Report: Improvements to the Performance of the Federal Regulatory System – Issues and Research Scoping Workshop. Ottawa, December 2008. Submitted to: Major Projects Management Office.

¹⁴ Duane Morris LLP & Affiliates, 2009. Alerts and Updates: *NEPA Compliance for Projects Funded Under the American Recovery and Reinvestment Act of 2009: Is Your Project “Shovel Ready”?* 23 June 2009.

¹⁵ See eight core elements of “good EA legislation” in: P. Duck. 2008. *ENGO Concerns for the Review of the Canadian Environmental Assessment Act*. Environmental Planning And Assessment Caucus – Canadian Environmental Network.

¹⁶ Plourde, André, and Ed Whittingham. 2009. *A Complicated Tale – Developing Energy Is Not A Simple Matter In Canada*. Draft paper submitted as part of the Energy Framework Initiative policy forum, Ottawa, 23 September 2009.

¹⁷ Lahey, William. 2009. *Environmental Regulation of Energy Projects in Canada: Challenges and Solutions*. Draft paper submitted as part of the Energy Framework Initiative policy forum, Ottawa, 23 September 2009.

¹⁸ The following groups and/or documents provide a multi-stakeholder look at how EA in Canada can be improved:

- Work of the *Regulatory Performance Improvement Working Group* and the *Environmental Assessment Task Group* (Canadian Council of Ministers of the Environment)
- Environmental Planning And Assessment Caucus – Canadian Environmental Network ENGO Concerns for the Review of the *Canadian Environmental Assessment Act*, March 2008
- Kwasniak, Arlene. *Reviewing the Canadian Environmental Assessment Act: A Citizen’s Backgrounder*, February 2009
- Stratos Inc., Workshop Summary Report: Improvements to the Performance of the Federal Regulatory System – Issues and Research Scoping Workshop. Ottawa, December 2008. Submitted to: Major Projects Management Office.
- Barnes, Jeffrey L., Colleen Leeder, and Robert Federico. *Environmental Assessment Crisis in Canada: Reputation versus Reality?* IAIA 2005.

¹⁹ Stratos Inc., Workshop Summary Report: Improvements to the Performance of the Federal Regulatory System – Issues and Research Scoping Workshop. Ottawa, December 2008. Submitted to: Major Projects Management Office.

²⁰ A *Special Report on Renewable Energy Sources and Climate Change Mitigation* is due for release at the end of 2010 by the Intergovernmental Panel on Climate Change and should provide important context for governments challenged with growing their renewable energy sectors.

²¹ Ontario Waterpower Association, *Class Environmental Assessment for Waterpower Projects*. October 2008.

²² For example, the Province of British Columbia Environmental Assessment Office is currently preparing “Common Issues and Commitments” reports for specific project types to streamline EA scoping and review. A report for wind power projects is contemplated.

²³ ECO Canada, *Profile of Canadian Environmental Employment 2007*.