4 INTERNATIONAL CLIMATE FINANCING

Photo: Jordi Fernandez

Recommendation Summary

Through the Paris Agreement, Canada and other developed countries committed to continue efforts on climate finance mobilization and set a collective goal of at least USD 100 billion per year to assist developing countries address climate change impacts and undertake low-carbon development. A federal government announcement in November 2015 put Canada on the path of scaling up its international climate finance contribution to CAN$800M per year in 2020. Although this is commendable, the funding is significantly short of Canada's fair share contribution. To support climate mitigation and adaptation efforts in developing countries, the Green Budget Coalition recommends that Canada scale up its efforts on international climate finance, provide certainty on funding beyond 2020, and indicate how it intends to mobilize its fair share of international climate finance. The GBC recommends generating this funding through a levy on bunker fuels used in international aviation and/or marine shipping.

Investment Required and Suggested Revenue Source(s)

At least CAN$2 billion over the next two years, to be added to the $800 million already committed by the federal government for 2020, all of which will leverage additional investment by the private sector. Between 2021 and 2025, Canada's annual public contribution should total CAN$2.8 billion to CAN$3.7 billion (using an appropriate leverage ratio for private sector financing, and depending on the US-Canada exchange rate). Part or all of this can be mobilized by working with international partners through bilateral or multilateral agreements to apply a levy on bunker fuels used in international aviation and/or maritime shipping. The levy should be at least as high as the level of the pan-Canadian carbon price, and match annual increases up to and beyond 2022.

GBC Feature Recommendations – Alignment with Political Priorities

International Climate Finance

Reducing GHG Emissions	
Climate Resilience	✔
Reconciliation with Indigenous Peoples	✔
Meeting Public Expectations	
Healthy Waters	✔
Jobs for the Middle Class	
Improving Health & Wellbeing	
Protecting Nature & Wildlife	
Clean Growth & Innovation	✔
Economic Growth for Rural & Remote Communities	

Background and Rationale

A vital part of all international climate negotiations and agreements is international climate financing. Industrialized countries have acknowledged that they are largely responsible for creating climate change and have the greatest capacity to address its challenges. As such, Canada and other industrialized countries have agreed to provide financing to developing countries to address the impacts they are already facing and to assist them in undertaking low-carbon development. In the Paris Agreement, that commitment was to mobilize at least US$100 billion per year in financing between 2020 and 2025.[26]

1. Level of commitment

Canada's current global contribution ratio is lower than that provided by the previous federal government, when it provided $1.2 billion of the $30 billion[27] required for fast-start financing to support mitigation efforts in developing countries between 2010 to 2012. According to The Globe & Mail, former Minister of Foreign Affairs Stéphane Dion referenced Canada's $4 billion annual share when he announced that his government was extending $2.65 billion to climate financing in November 2015.[28]

A target of $4 billion per year or a fair share of 3-4%, starting in 2020, would require Canada to significantly scale up mobilization of public and private sources. It is also important to note that an OECD report has estimated that $1 in public financing for climate change leverages an additional $0.38 in private sector investment.[29] Given the lower effort compared to the ratio of funding provided by the previous government, the shortfall in Canada's global fair share, and the ratio to leverage private sector investment, Canada's $800 million per year towards international climate finance is insufficient to leverage enough private sector financing to reach Canada's fair share.

Photo: Mitchell Hollander

26 Paris Agreement. Article 54. Accessed at https://unfccc.int/resource/docs/2015/cop21/eng/l09.pdf

27 Environment Canada. (2011). "Minister Kent Announces International Climate Funding." Press Release. Dec. 5. Accessed at: http://www.ec.gc.ca/default.asp?lang=En&n=714D9AAE-1&news=B37E3BE6-5D04-4566-B674-677A20213456

28 Clark, C. (2015). "Canada commits $2.65-billion to climate-change funding." The Globe and Mail. Accessed at: http://www.theglobeandmail.com/news/politics/canada-commits-265-billion-to-climate-change-funding/article27507453/

29 OECD and Climate Policy Initiative. (2015). "Climate Finance in 2013-14 and the USD 100 billion goal."

Year	Announced contribution from federal government	Estimated commitment of public funds (supplemented by private financing)*
2016	CAN$300M	
2017	CAN$400M	
2018	CAN$500M	
2019	CAN$650M	
2020	CAN$800M	CAN $2.8B - $3.7B
2021-2025	$0	CAN $2.8B - $3.7B annually

**Will depend on the fair share percentage chosen by the Canadian government, the private sector leverage factor, and US-Canada exchange rates.*

2. Principles for climate financing

Canada's climate financing also needs to heed important principles to be most effective *and* meet our commitments. Financing needs to be:

- New and additional: raiding international development funds to finance climate change puts developing countries no further ahead.
- Balanced between mitigation and adaptation: many poor countries need adaptation assistance most, given their level of development and significant impacts they face. So far, specific programs funded from the $2.65 billion pool have overwhelmingly been focused on mitigation.
- In the form of grants, not loans: Extending loans that have to be paid back makes often indebted countries even more financially vulnerable.
- Predictable: It is commendable that the Canadian government announced well in advance its contributions for the next five years. In the future, earmarking part of the federal carbon pricing revenue for this purpose would allow the international community to know what financing totals to expect from Canada in 2020 and beyond.

3. Potential sources of revenue for international climate financing

Rather than continuously depending on federal budgets to generate Canada's fair share of international climate financing, the federal government should consider implementing so-called innovative forms of financing. These are new mechanisms, often fiscal tools, to generate a predictable source of financing either domestically or through international agreements.[30]

Photo: Cara Fuller

30 See for example Climate Action Network. (2015). "New, Innovative Sources of Climate Finance Position." Accessed at http://www.climatenetwork.org/publication/can-position-new-innovative-sources-climate-finance-may-2015.

Photo: Jushua Earl

According to the International Monetary Fund, one promising option would be for international partners, including Canada, to apply a levy on bunker fuels used in international aviation and/or shipping.[31] Emissions from bunker fuels used in international travel are a large and growing source of GHGs globally and these emissions are not addressed in the Paris Agreement or Canada's pan-Canadian climate framework. These fuels also face no excise taxes in the way that domestic fuel usage does. A global $25/tonne levy on emissions from international aviation and maritime travel would generate an estimated $38 billion annually,[32] a significant portion of the $100 billion annual commitment to climate financing. There is a strong rationale for applying a carbon levy that is equal or even higher than the pan-Canadian price on carbon. Increasing it over time so that it reaches $50/tonne in 2022 and even higher thereafter would generate most or all of the revenue required to fulfill Canada's Paris Agreement commitments on international financing.

Canada should therefore work with international partners to apply such a levy on these fuels and earmark the revenue entirely to Canada's climate financing commitments under the Paris Agreement. A good place to start would be through a bilateral agreement with the European Union to apply a carbon levy on fuel used on flights between Canada and the EU.

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31 Farid et al. (2016). "After Paris: Fiscal, Macroeconomic, and Financial Implications of Climate Change." Accessed at https://www.imf.org/external/pubs/ft/sdn/2016/sdn1601.pdf.

32 International Monetary Fund. (2011). "Market-Based Instruments for International Aviation and Shipping as a Source of Climate Finance." Accessed at: https://www.imf.org/external/np/g20/pdf/110411a.pdf.

COMPLEMENTARY RECOMMENDATIONS REGARDING CLIMATE CHANGE AND ENERGY SUSTAINABILITY

Fossil Fuel Subsidy Reform

Changes announced in Budget 2017 on fossil fuel subsidy reform are a positive step forward. The Green Budget Coalition (GBC) calls on the Government to:

- Disclose costs of all federal direct spending and value of tax measures for exploration, development and production of coal, oil and natural gas. This information should also be provided to the Parliamentary Budget Office.
- Initiate work with partner countries to define "efficient" fossil fuel subsidies.
- Proceed with a volunteer peer review of Canada's fossil fuel subsidies alongside Canada's G20 partners who have already taken part in the process.

We note that the preferential treatment of unsuccessful exploration remains unchanged and preferential treatment of exploration and development expenses for oil and gas through flow-through shares in general is still available. The GBC further recommends that the Government legislate a timeline for the phase-out of:

- Accelerated Capital Cost Allowance for Liquefied Natural Gas projects
- Canadian Development Expenses claims
- Canadian Exploration Expenses claims, including for unsuccessful exploration
- Remaining Flow-through Share deductions for oil and gas sector through the acquisition of shares and limited partnerships
- Canadian Oil and Gas Property Expense
- Foreign Resource Expense, and Foreign Exploration and Development Expense
- Duty Exemption for Imports of Mobile Offshore Drilling Units in the Atlantic and Arctic

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Photo: Willian West

Carbon Pricing

A price on carbon is an important element to any climate change plan, applying the polluter pays principle and giving incentives for businesses and individuals to reduce greenhouse gas emissions, move towards cleaner energy sources, and contribute to phasing out fossil fuels. Research shows that, along with other strong government measures, a carbon price that continues to ramp up every year to 2030 is needed for Canada to reach its 2030 GHG target. Also, competitiveness issues and carbon leakage has been shown to apply to a very small percentage of Canada's emissions and GDP; therefore measures to address competitiveness need to be targeted, transparent, and temporary.

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Energy Efficiency

To support energy efficiency, the Green Budget Coalition recommends that the Government of Canada provide annual funding, rising to $400 million per year over the next five years, to offset the cost of energy efficiency retrofits and construction of energy efficient homes in remote communities, Canada's North and in low-income family homes. These communities, in particular, are adversely affected by higher costs of energy, and funding measures should support reducing energy costs while improving the housing stock.

The GBC also recommends the Government establish regional centres of expertise to ensure sustained capacity-building on energy efficiency in these communities over the longer-term. These investments should also include outreach to educate consumers on energy efficiency opportunities and their benefits as well as mandatory labelling of energy efficiency ratings for all buildings marked for sale, lease or rent, and developing regulations that ensure all new building stock meets the highest energy efficiency requirements.

Included in the federal government's 2017 budget is an allocation of $67.5 million over four years to continue existing energy efficiency programs and a New National Housing Fund of $5 billion over the next 11 years. However, dedicated funds are needed to address energy and housing challenges faced specifically by remote communities, Canada's North and low-income families. In addition, given that buildings account for 12 per cent of Canada's GHG emissions, consumers need better information on energy efficiency opportunities. Consumers in Canada should have access to the highest energy efficient built quality.

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ENERGY STAR

ENERGY STAR is an international standard that is used in seven jurisdictions, including Canada, and marks equipment with high energy efficiency performance in their class. The program is managed by the United States Environmental Protection Agency (EPA) and is at risk of being defunded. ENERGY STAR certified products and homes have been key to the success of energy efficiency gains in Canada, contributing to nearly 4PJ of savings in 2015. U.S. defunding of ENERGY STAR will have implications for Canadian consumers and manufacturers. The GBC recommends Canada immediately initiate discussions with the EPA and manage ENERGY STAR for the next five years. GBC recommends a minimum funding of CAN25 million per year over five years.

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Photo: Roberto Nickson

Photo: Sid Zhao