



CANADA'S **ECOFISCAL** COMMISSION
Practical solutions for growing prosperity



2017 ANNUAL REPORT

eco•fis•cal policy /ekō'fiskəl/ adj.

An ecofiscal policy corrects market price signals to encourage the economic activities we want (job creation, investment and innovation) while reducing those we don't want (greenhouse gas emissions and the pollution of our land, air and water).

VISION

A thriving economy underpinned by clean air, land and water for the benefit of all Canadians, now and in the future.

MISSION

To identify and promote practical fiscal solutions for Canada that spark the innovation required for increased economic and environmental prosperity.

For more information about the Commission, visit Ecofiscal.ca

LETTER FROM THE CHAIR AND EXECUTIVE DIRECTOR

When we first started putting the Ecofiscal Commission together in 2013, our goal was to spark discussion. Economists were already talking about using economic instruments to address environmental issues, but we wanted to add “ecofiscal solutions” to the vocabulary of everyday Canadians and the agendas of governments across the country.



Today, more than halfway through our mandate, we think it's fair to say we've exceeded expectations.

A Pan-Canadian Framework for Clean Growth and Climate Change is in place, which leans heavily on carbon pricing. Manitoba and Nova Scotia are the latest provinces to announce carbon-pricing policies, joining B.C., Alberta, Ontario and Quebec. Meanwhile, Metro Vancouver is exploring road fares and other fee-based mechanisms to address traffic congestion.

We know we can't take sole credit for these policy shifts — far from it. But we have kick-started conversations, informed policy planning and helped governments get the public buy-in they need to move their agendas forward.

In 2017, we continued to make a convincing argument for ecofiscal policies. With our spring report, we looked at how complementary strategies such as updating building codes or regulating methane emissions from oil and gas production can enhance the impact of carbon pricing, reducing greenhouse gases in the most cost-effective way possible.

In the fall, we returned to municipal issues — an area we first addressed in 2016 with our report on traffic congestion. This time, we looked at opportunities for user fees to fund local water and wastewater infrastructure.

Meanwhile, as governments at every level recognize the benefits of ecofiscal instruments, we piloted a series of workshops for public servants on the practical details of designing good ecofiscal policies.

In the year ahead, we'll be wrapping up that pilot project, as well as issuing two more major reports and taking advantage of timely opportunities to promote ecofiscal measures.

As we tackle this agenda, we'll have the benefit of a new commissioner: Justin Leroux, a professor of applied economics at HEC Montréal, brings considerable municipal expertise to the table. At the same time, we bid farewell to Advisory Board members Sheila Watt-Cloutier and Jack Mintz, with sincere thanks for their contributions.

We've also seen some changes on the management front, as Chris Ragan takes on a new role heading up McGill's recently launched Max Bell School of Public Policy. Although Chris will continue to stay involved with the Commission, Research Director Dale Beugin has stepped up to handle more of the organization's day-to-day operations and take on greater public responsibilities in his expanded role as Executive Director.

In closing, we gratefully acknowledge the funders who saw the need for a credible, authoritative and non-partisan source of sound policy advice and who stepped up to support this venture. Thanks to their generosity, we are shifting the conversation and showing that pricing pollution works.

Chris Ragan, Chair, Canada's Ecofiscal Commission
Director, Max Bell School of Public Policy, McGill University

Dale Beugin, Executive Director

CARBON PRICING

Whether it takes the form of a tax or a cap-and-trade system, well-designed carbon pricing reduces greenhouse gas emissions effectively and efficiently and should be the workhorse of any climate strategy. However, even the best carbon-pricing policy has limitations.



Complementary approaches: choose carefully, design thoughtfully

Adding some carefully selected measures can fill gaps and enhance impact, as we discuss in *Supporting Carbon Pricing: How to identify policies that genuinely complement an economy-wide carbon price*. Our report looks at where additional approaches make sense, and also where they don't.

Here's what we found.

Some GHG emissions are difficult to measure and price. (Think non-point sources, such as agriculture emissions or the "fugitive" methane that can escape from pipelines.) That's where **gap-filling policies** can play an important role.

In other cases, taxes and/or cap-and-trade systems may not be enough to persuade companies or individuals to reduce their emissions. Here, **signal-boosting policies** can address market problems. For example, requiring labels on appliances can help consumers make smart purchasing decisions. But some signal-boosting tactics come at a hefty cost, such as Quebec's rebates for electric vehicles.

Finally, there are situations where **benefit-expanding policies** can cut carbon emissions and achieve other objectives at the same time. For example, phasing out coal-fired electricity reduces not only greenhouse gas emissions but also other pollutants that create significant health problems.

However, we caution that trying to achieve multiple purposes with a single policy risks diluting overall effectiveness.

We also caution that the wrong policies undermine carbon pricing or achieve results at an unacceptably high cost. To be truly complementary, they must be designed well, have a clear rationale and not interfere with or undermine carbon-pricing instruments.

“They're a voice that I think is listened to and respected.”

Review interviewee

GETTING ATTENTION

Our deep dive into the role of non-pricing carbon policies generated lots of buzz in 2017, including media coverage from Cape Breton to Vancouver Island. In the first week alone, more than 1,500 people viewed our report. Meanwhile, 300+ people participated in our webinar on complementary approaches, and even more tuned into our live panel discussion on Google Hangout, featuring experts from the Fraser Institute, the Pembina Institute and Simon Fraser University.

To help governments make the best use of our findings, we provided six recommendations:

- 1 Make carbon pricing the core of climate policy, with steadily increasing stringency.
- 2 Clearly demonstrate complementarity before adopting any non-pricing policies.
- 3 Strive to coordinate carbon pricing and complementary policies across the country.
- 4 Regularly review and assess both individual climate policies and the larger policy package.
- 5 Rely on integrated modelling to assess the overall effectiveness of proposed and existing policies.
- 6 With the implementation of an economy-wide carbon price, phase out and avoid redundant, high-cost or ineffective policies.

TALKING CARBON TAXES AND CAP-AND-TRADE ACROSS THE COUNTRY

In 2017 we placed opinion pieces about carbon pricing in the following publications.



Continuing to make the case for carbon pricing

In 2017, Manitoba and Nova Scotia became the latest provinces to announce carbon-pricing initiatives, meaning 92 per cent of Canadians will soon live in jurisdictions with either a tax or cap-and-trade system.

Manitoba's proposed tax of \$25 per tonne is considerably higher than the federally required minimum of \$10 per tonne, but the province has no plan to raise it over time. Nova Scotia announced a cap-and-trade system, but some details have not yet been defined. And in December, Saskatchewan released a plan that contained elements of carbon pricing but fell short of either a tax or cap-and-trade system.

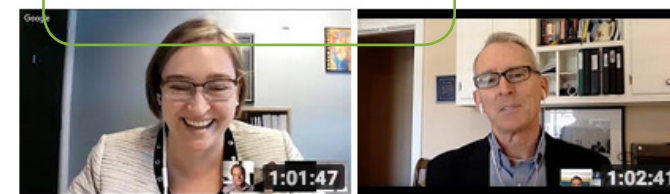
With new developments such as these came new opportunities to highlight evidence supporting carbon pricing.

In April, the Ecofiscal Commission's Chair, Chris Ragan, joined some of Alberta's biggest names in business to discuss how a carbon levy will affect the provincial economy — and especially the energy sector — as part of the Calgary Chamber of Commerce's Energy Future series.

In September, Chris Ragan participated in a workshop with the Manitoba government. It brought business stakeholders together to discuss approaches to protecting competitiveness under carbon pricing.

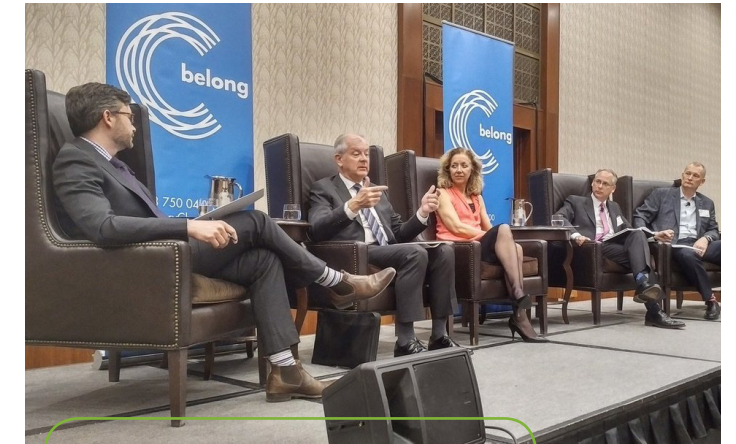
Meanwhile, we placed 11 strategic op-eds in both national and local publications.

Google Hangout series, including panellists Angella MacEwen and Bob Inglis.



Carbon Pricing From the Left
Canada's Ecofiscal Commission
938 views •
Streamed 9 months ago

Carbon Pricing From the Right
Canada's Ecofiscal Commission
848 views •
Streamed 10 months ago



Public panel with the Calgary Chamber of Commerce on the need for policy certainty.

Carbon pricing from the right and the left

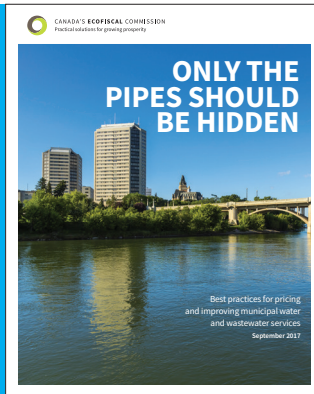
As a non-partisan organization with advisory board members and commissioners from across the political spectrum, the Ecofiscal Commission presents research-based and objective policy advice. However, we recognize there are political dimensions to these policy issues.

That's why the Commission's Chris Ragan moderated two online panels in March to discuss different approaches. The first event assembled experts from the political right to unpack how carbon pricing can support small-c conservative values, discussing how the revenues can be used to lower taxes and allow market forces to drive green innovation. The next day, our second panel explored how left-leaning governments can reinvest carbon revenues to support low-income households and spur the transition to a low-carbon economy.

Viewed by nearly 1,800 people, these lively discussions highlighted that although the left and right may differ on exactly how to recycle the revenue, carbon pricing makes sense regardless of political leanings.

WATER PRICING

When most Canadians turn on the tap, clean potable water pours out. But in most municipalities, they're not paying the full costs of treating and delivering that water — or the costs of treating what goes down the drain.



Making the prices visible

This underpricing encourages waste: Canadians are some of the biggest water users in the world. It also contributes to infrastructure gaps that put both ecosystems and human health at risk.

What's the solution? This year, the Ecofiscal Commission made the case for user fees in *Only the Pipes Should Be Hidden: Best practices for pricing and improving municipal water and wastewater services*. Released in September, our report includes five case studies from municipalities large and small, ten best practices for designing and implementing water rates, and six policy recommendations.

Not all the practices and recommendations we include are appropriate for all municipalities, given the diversity of size, infrastructure and water sources across the country. However, we believe every municipality will find many useful tools within our report.

Designing smart water fees

We argue that by restructuring and raising water rates, utilities can link water use to the price users pay, driving conservation.

We also emphasize the need for full cost recovery. It provides the revenue required not just for the day-to-day costs of operating water and wastewater treatment plants but for building, maintaining and upgrading infrastructure and protecting the water sources on which municipalities depend.

Well-designed user fees can fund infrastructure, protect water quality and improve conservation.



ATTRACTING ATTENTION

Only the Pipes Should Be Hidden garnered plenty of attention, with 1,755 people viewing the report in the first week. Fifty-five people took part in our webinar reviewing the report, while our live online panel discussion featuring water professionals from B.C., Saskatchewan, Ontario and Nova Scotia attracted 200+ views.

The report also attracted national media coverage through CBC, Power & Politics and the Canadian Press, plus local coverage in Ottawa, Winnipeg and Vancouver where water is a hot topic. It also garnered attention in industry magazines, with in-depth features in *Public Sector Digest*, *Water Canada*, *Municipal World*, *Vecteur Environnement* and the BCWWA's *Watermark*.

To achieve these outcomes, the report looks at proven practices based on real-world experience in Canadian cities, such as:

- Installing water meters, so utilities can charge by volume
- Developing asset-management plans
- Charging fixed fees in addition to volumetric charges, so municipalities have income they can count on to build and maintain infrastructure
- Implementing measures to protect low-income households



Google Hangout with panellists from Gibsons, Battleford, York Region and Halifax.

GETTING DOWN TO BRASS TACKS

For the past four years, we've been making persuasive arguments for ecofiscal solutions — and governments have been listening. But how do policy makers actually design effective ecofiscal instruments?

To dig into the nitty-gritty of policy design, our commissioners led professional development courses in Ottawa, Toronto and Edmonton in 2017. Funded by the Ivey Foundation, some sessions targeted senior public servants, while others were designed for more junior analysts.

Together, the workshops "Designing Economic Instruments for the Environment" equipped 76 participants with practical advice on identifying, developing and delivering the best economic policies to address environmental issues.



Policy makers participating in the Ottawa environmental instruments course.

THE HALF-TERM REVIEW

During the fall of 2017, as we passed the midway point in our six-year mandate, we paused to assess the Commission's performance to date and consider what the future could hold.

A survey sent to our mailing list generated 241 responses. We also conducted stakeholder interviews, speaking with 27 commissioners, advisors, funders, government officials, journalists and NGO representatives. Finally, we convened a focus group with commissioners.

A respected — and effective — voice

The feedback we received was gratifyingly positive. We heard that the Ecofiscal Commission has helped shape policy discussions on pricing pollution and created political space for governments to implement ecofiscal measures. Survey respondents gave us an average rating of 79 per cent for effectiveness, citing our credible, non-partisan expertise.

Our review also revealed that we are best recognized for work on carbon pricing, playing an influential role at a crucial time as the federal and provincial governments were exploring and implementing carbon taxes and cap-and-trade systems.

In addition, interviewees spoke about our impact on other issues. "They're willing to take on some things that may be more difficult conversations for politicians to have — like road pricing and water pricing," one stakeholder told us.

Another lauded our report on biofuel subsidies: "I'm certainly glad that they're out there putting these kinds of arguments across, because it helps to temper the enthusiasm that a lot of people have for these very inefficient kinds of subsidy instruments."

The overall message from our survey and interviews seems clear: the Commission has been delivering on its mandate.

"They're one of the big success stories in Canadian public policy over the last 10 years."

Review interviewee

"The Commission, particularly in its earlier years, ... had a very substantial effect on the views of Canadian policy makers."

Review interviewee

Life after 2019?

We also solicited input on the Commission's future. Should we close our doors at the end of 2019, as originally envisioned? Or is there value in continuing to deliver our expert, impartial analysis?

Seventy-nine per cent of interviewees and 81 per cent of survey respondents voted for extending the mandate, with most suggesting a further two or three years. However, many noted that it depended on the political climate, funding and other factors.

Most agreed that, if the Commission carries on beyond 2019, pricing carbon should remain a major focus. They saw opportunities for us to review the efficacy of Canada's new taxes and cap-and-trade systems and continue to help governments implement these policies. Other suggested focus areas include water pricing, water pollution and environmental issues stemming from growth in urban populations.

We'll carefully consider this feedback throughout 2018 as we determine the future of Ecofiscal. Stay tuned!

OUR IMPACT

Over the past year, the Commission has engaged with audiences — online and in person — from coast to coast. And for the first time, we also taught courses to policy makers. Together, we are making an impact on Canadian policy.

TAKING ECOFISCAL ACROSS CANADA



BY THE NUMBERS: A QUANTITATIVE REVIEW OF OUR IMPACT

PUBLICATIONS 3	CITATIONS 32 <small>GOOGLE SCHOLAR</small>	WEBSITE ACTIVITY 114,719 <small>PAGEVIEWS</small>	24,229 <small>USERS</small>
MEDIA MENTIONS 665	BLOG POSTS 73	SOCIAL NETWORKING 854 <small>LIKES</small>	98,741 <small>VIDEOS</small>
		6,328 <small>FOLLOWERS</small>	767 <small>FOLLOWERS</small>

TOP 5 ECOFISCAL POLICY ADVANCES

CARBON PRICING

FEDERAL OUTPUT-BASED PRICING NATIONAL

In May, the federal government released a technical paper on its carbon pricing backstop. It includes details on a levy applied to fossil fuels and output-based allocations for industrial facilities that emit above a certain threshold. The backstop will apply in jurisdictions that do not have carbon-pricing systems that align with the benchmark released in October 2016 and agreed to in the Pan-Canadian Framework (PCF) on Clean Growth and Climate Change signed December 9, 2016.

LINKED CAP-AND-TRADE ONTARIO

In September, Ontario officially agreed to join the Western Climate Initiative (WCI) and link its cap-and-trade system with Quebec's and California's in January 2018. This harmonized carbon market will be the second largest in the world, trailing only the EU Emissions Trading System (ETS) and will feature joint permit auctions. Because it allows for permit trading between jurisdictions, linked cap-and-trade systems achieve lower-cost mitigation actions across jurisdictions than an unlinked system.

CARBON PRICING MANITOBA

Manitoba's Progressive Conservative government released its Made-in-Manitoba Climate and Green Plan in October 2017. The plan includes a \$25 per tonne carbon price and an output-based approach for large emitters. While the price starts out higher than the pricing trajectory defined in the PCF, it stays there indefinitely. Manitoba's modelling work suggests this constant price results in greater cumulative emissions reductions than a steadily rising carbon tax over the next five years. How the PCF will measure compliance during reviews in 2020 and 2022 remains to be seen.

BIOFUEL POLICY REFORM

PHASE-OUT OF THE RENEWABLE FUEL MANDATES NATIONAL

On December 13, 2017, Environment and Climate Change Canada released the Regulatory Framework on the Clean Fuel Standard (CFS). The CFS will reduce Canada's GHG emissions through a flexible performance-based approach that encourages the use of a broad range of low-carbon fuels, energy sources and technologies. In particular, the regulatory framework notes that the CFS will replace the federal Renewable Fuels Regulations (RFR) in the long term. The RFR currently requires that gasoline and diesel contain at least 5% ethanol and 2% biodiesel, respectively. Because the CFS is a flexible performance standard that levels the playing field for all low-carbon fuels, it will reduce emissions at a lower cost than the RFR.

CONGESTION PRICING

MOBILITY PRICING INDEPENDENT COMMISSION BRITISH COLUMBIA

The TransLink Board of Directors and Mayors' Council on Transportation created the Mobility Pricing Independent Commission to recommend improvements in the way Metro Vancouver prices transportation. This will include tolling roads and bridges to reduce traffic congestion, promote fairness and support continued investment in urgently needed transportation infrastructure. The Independent Commission began its work in the summer of 2017 and will provide recommendations by the spring of 2018.

LOOKING FORWARD

Across the country, governments are looking for ways to build thriving economies that are environmentally sustainable. In 2018, we'll continue to provide the credible research on and expert analysis of the practical tools policy makers need to achieve that goal.

Our first major report in the spring of 2018 will focus on pricing environmental risks — everything from pipeline bursts to the damage created by a mining company that subsequently goes bankrupt. In our fall report, we'll return to municipal issues, exploring how towns and cities can best leverage approaches such as user fees for garbage disposal services to tackle solid waste issues.

Of course, we'll be complementing these larger projects with plenty of op-eds, smaller reports and behind-the-scenes meetings throughout the year.

We'll also be wrapping up our professional development pilot program in 2018 with a final workshop in Ottawa, helping senior government officials to develop effective pollution-pricing policies.

Finally, as our initial six-year mandate draws to a close, we'll be carefully considering what direction the Ecofiscal Commission takes beyond 2019. We'll be drawing on input from stakeholder interviews and other consultations to decide whether to continue with a renewed mandate or close shop and let others build on the foundations we've created.

“It's going to be really important to have rigour and economic analysis from somebody that's got such a strong reputation like Ecofiscal.”

Review interviewee

“These guys — because of who they are and because of their connections — are actually viewed as a positive force by the Finance Department, and that's worth its weight in gold.”

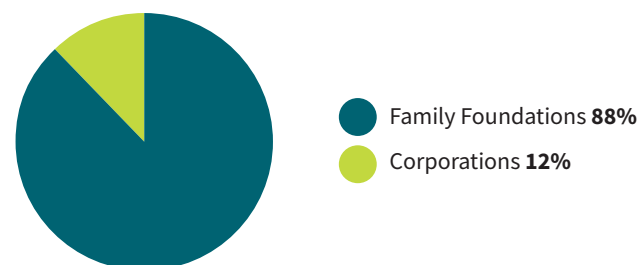
Review interviewee

“This is going to be really useful as carbon pricing is introduced across the country and environmental/finance folks need to work together”

Workshop participant

REVENUES AND EXPENDITURES 2017: ~\$1.3 MILLION

REVENUES



EXPENDITURES



WHO WE ARE

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* Served until summer of 2017

FUNDERS & SUPPORTERS

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Canada's Ecofiscal Commission

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Find out more and share your views.



Canada's Ecofiscal Commission was formed by a group of experienced policy-minded economists from across the country, seeking to broaden the discussion of ecofiscal policy reform beyond the academic sphere and bring it into the realm of practical policy application. The Ecofiscal Commission and its commissioners are fully independent and aim to serve policy makers across the political spectrum, at all levels of government.