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## Ecological Fiscal Reform:

A Realistic Approach to Achieving  
Sustainable Development  
In Manitoba

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A Brief to the Minister of Finance  
for the Budget Consultation

November 2005



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Incorporated as a non-profit organization in 1985, RCM is directed by an elected community board. Volunteers and professional staff deliver our programs. Projects are funded by contributions from individuals, foundations, governments, and businesses.

RCM offers services primarily in three areas -- sustainable, transportation, waste reduction, and climate change, though our work touches many issues. Programs include public education on composting, an Environmental Speakers Bureau for schools, an annual Waste Reduction Week, the Commuter Challenge, the Campus Commuter Challenge, Active and Safe Routes to School, transportation demand management services for workplaces, and a trip reduction program for secondary school students.

RCM's Board of Directors takes the lessons we learn through our community work and advocates for sustainability through briefs, interventions, presentations, and letters to licensing bodies, policy-makers and decision-makers.

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#### **Definitions**

“Fiscal policy” means government taxation and expenditure policy. It includes the mix of fees, taxes and charges that governments use to raise revenue, along with the tax credits, rebates and exemptions that encourage desired actions.

“Ecological fiscal reform” means redirecting fiscal policy to help achieve the goals of sustainability.

# ECOLOGICAL FISCAL REFORM: A REALISTIC APPROACH TO ACHIEVING SUSTAINABLE DEVELOPMENT IN MANITOBA

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## INTRODUCTION

Resource Conservation Manitoba (RCM) is an environmental non-governmental organization that is committed to the advancement of a more sustainable society in which our planet's natural endowments of living and non-living systems and resources are valued, respected and conserved. Recognizing that this natural legacy is finite and subject to degradation and depletion, RCM promotes, as essential pillars of a sustainable society:

- the conservation of our natural endowments;
- the maintenance of waste emissions within the present and future assimilative capacity of the environment without unacceptable degradation;
- eco-efficiency – improving the ratio of social benefits to environmental harms and resource depletion; and,
- social justice.

In this brief, RCM argues that Manitoba faces growing environmental problems that current programs and policies are not adequate to address. While Manitoba does better than the Canadian average on some measures, it performs worse on others, such as per capita energy consumption and, in any case, falls substantially short of a sustainable economy.

In order to achieve a sustainable economy RCM believes that Manitoba must make use of the broad range of economic and fiscal tools that are available and combine them with its traditional powers of regulation and program development. Fortunately, the Province's *Sustainable Development Act* provides a clear legal basis for defining and implementing the Principles and Guidelines of Sustainable Development.

The National Round Table on the Environment and the Economy (NRTEE) has developed an approach called 'Ecological Fiscal Reform' that shows great promise in effectively achieving a sustainable economy. RCM calls on the government of Manitoba to enact this approach to addressing key environmental problems facing the Province.

## KEY ENVIRONMENTAL PROBLEMS FACING MANITOBA

There are several growing environmental problems facing Manitoba. They include:

- Increasing greenhouse gas (GHG) emissions from key sectors of the economy;
- Deteriorating quality of the water in aquifers and in Lake Winnipeg;
- Insufficient minimization of household hazardous materials, waste electronics, organics, commercial and industrial waste entering landfill sites;
- Low energy efficiency of Manitoba homes and businesses and attendant overconsumption of electricity and natural gas due to the inappropriate pricing of these resources and lacklustre demand side management (DSM) programs.

**Growing Greenhouse Gas (GHG) Emissions:** According to Environment Canada's report, *Canada's 2002 Greenhouse Gas Inventory*<sup>1</sup>, total GHG emissions grew by 20% between 1990 and 2002 for all of Canada but by only 6% for Manitoba. However, the overall 6% growth for Manitoba masks key sources of substantial increases and decreases.

Reductions occurred in five key sectors – industrial processes (-57%), gasoline automobiles (-27%) [attributable to displacement by light duty gasoline trucks/SUVs], residential energy use (-22%) and agricultural soils (-20%).

Increases occurred in five key sectors – transportation (light duty gasoline trucks/SUVs +75% and heavy duty diesel vehicles +48%); agriculture (methane from livestock +38% and manure management +64%); energy use by commercial and institutional organizations +21%; energy production +74%; and, solid waste management (methane from landfills+54%).

The fact that reductions occurred indicate that efficiencies can be achieved. The reality of substantial increases indicates that efficiencies need to be achieved.

**Deterioration in the Water Quality of Lake Winnipeg:** The *Lake Winnipeg Stewardship Board's – Interim Report, January 2005*<sup>2</sup>, reveals the substantial deterioration that has occurred in the water quality of Lake Winnipeg due to nutrient overloading from agriculture and municipal waste sources. In addition, many wells in the Province are contaminated from ground water pollution.

**Lack of Substantial Action on Waste Reduction:** Manitoba has made little progress in reaching its stated goal of a 50% reduction in solid waste by the year 2000. As RCM's brief to the Minister of Conservation titled *Regaining the Lead: Creating a New Waste Minimization Strategy for Manitoba*<sup>3</sup> stated, Manitoba had achieved only a 22% reduction in waste going into landfills by 2002, it has no programs in place to address electronic wastes and grossly inadequate programs for organics and household hazardous wastes. Furthermore, the Manitoba Product Stewardship Corporation and the Tire Stewardship Board are facing financial crises due to the inability of existing levies to meet the rising costs of recycling the materials.

**Overconsumption of Energy:** As reported in the 2001 Power Smart plan, over the last decade, while Manitoba's population increased by 3.4% and residential electricity customers increased by 6.8%, the residential consumption of electricity increased by 9.9%. Furthermore, over the same period, Manitoba's Power Smart programs had produced only a 0.7% reduction in annual electrical consumption for residential customers. Major contributors to this rising level and rate of energy use were a disinvestment in Demand Side Management programming and the cheap cost of electricity which is made possible from export earnings. The chief beneficiaries are large industrial users. In 2002, after 12 years of no rate increases, industrial users received a further 2% rate reduction. This action is a classic example of a perverse subsidy in which the charge to

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<sup>1</sup> See, [www.ec.gc.ca/pdb/ghg/1990\\_02\\_report/ann10\\_e.cfm](http://www.ec.gc.ca/pdb/ghg/1990_02_report/ann10_e.cfm)

<sup>2</sup> Available at, [http://www.gov.mb.ca/waterstewardship/water\\_quality/lake\\_winnipeg/interim\\_rpt.html](http://www.gov.mb.ca/waterstewardship/water_quality/lake_winnipeg/interim_rpt.html)

<sup>3</sup> Available at [www.resourceconservation.mb.ca/news/pdfs/Regaining\\_full\\_report.pdf](http://www.resourceconservation.mb.ca/news/pdfs/Regaining_full_report.pdf)

Manitoba customers declines in inverse proportion to the increasing value of electricity in the market. While Manitobans pay market prices for natural gas, these prices include another kind of subsidy – a subsidy from the environment and future generations stemming from not facing the environmental costs of natural gas externalities and resource depletion.

There are a number of economic and ecological problems created by this deep subsidization of the cost of electrical energy and natural gas. Among them:

- There is the lost value of the resource to the Manitoba treasury. University of Winnipeg economist Michael Benarroch has reckoned that, at the time Alberta became debt free earlier this year, Manitoba also could have retired its debt had Manitoba Hydro sold our power at the same rates as Saskatchewan and invested the extra income in debt retirement.
- Manitoba's policy of keeping electricity prices below market rates results in a political process which redistributes income to big capital.<sup>4</sup>
- There is wasted energy because the payback for investments in energy conservation is lower and thus the economic incentive to conserve, relative to other investments, is less. Hence we end up spending our energy dollars on a wasted resource and export extra dollars from the Manitoba economy to the Alberta economy for wasted natural gas.
- There are lost opportunities for economic development and job creation in the building and energy efficiency industries.
- Higher than needed domestic consumption limits the power available for export at higher rates.
- Having less efficient homes and businesses leaves Manitobans vulnerable to crippling rate shocks at times like the present when the gas commodity market spikes.
- Particularly in the highly subsidized industrial sector, growth in power use decreases Manitoba's wealth even further by (a) using up more of the power supply otherwise available for export, and (b) capturing a larger share of Manitoba's wealth in the form of subsidy from exports, thereby leaving less for other purposes (or users).
- If the energy crown corporations paid their share of provincial revenues, other taxes that put a drag on job creation could be reduced (e.g. the payroll tax).
- Wasted energy use has negative environmental impacts including - higher GHG emissions from natural gas and the upstream exploration, extraction, refining, and transmission impacts and depletion of a finite natural resource, increased pressures on extraction in more environmentally sensitive areas of the arctic and offshore, a more rapid reliance on more GHG-intensive Liquid Natural Gas sources with longer shipping and transmission lines and increased energy required for refrigeration and regasification.
- Wasted electrical power, in addition to its many economic costs, also has environmental costs by accelerating the impacts of constructing new generation and transmission and removing the option of displacing fossil fuel generated electricity in ON and the US.

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<sup>4</sup> See, [www.fcpp.org/publication\\_detail\\_print.php?PubID=792](http://www.fcpp.org/publication_detail_print.php?PubID=792).

## SUSTAINABLE ECONOMIC DEVELOPMENT IN LEGISLATION

In Manitoba, the concept of sustainability has legal force through the Sustainable Development Act (SDA), which includes a number of principles, guidelines, and definitions.<sup>5</sup> The Act articulates the following purpose in section 2:

*The purpose of this Act is to create a framework through which sustainable development will be implemented in the provincial public sector and promoted in private industry and society generally.*

The SDA stipulates that a sustainable development strategy shall be established and regularly reviewed, that component strategies may be adopted by regulation, that sustainable development indicators shall be developed and regularly reported on, that Cabinet shall establish a provincial code of practice to assist in the integration of sustainable development practices into government operations, that financial management guidelines and procurement guidelines will be adopted by the parties governed by the Act.

The SDA is binding on the provincial public sector, including the provincial and municipal governments, crown corporations, and public institutions like hospitals, universities, and schools. The Public Utilities Board (PUB) recently ruled, in Order 135-05, that Centra Gas, who argued it was exempt from the Act, would be held accountable to the SDA.

### Applicable Principles and Guidelines of Sustainable Development

Schedules A and B of the Sustainable Development Act contain 13 principles and guidelines. Those most pertinent to addressing the environmental problems facing Manitoba include,

Principle 2, **Stewardship**, which speaks of intergenerational equity;

Principle 4, **Prevention**, which says that “*Manitobans should anticipate, and prevent or mitigate, significant adverse economic, environmental, human health and social effects of decisions and actions, having particular careful regard to decisions whose impacts are not entirely certain but which, on reasonable and well-informed grounds, appear to pose serious threats to the economy, the environment, human health and social well-being.*”

Principle 5, **Conservation and Enhancement**, which states, among other things, that “*Manitobans should (a) maintain the ecological processes, biological diversity and life-support systems of the environment;*” and “*(c) make wise and efficient use of renewable and non-renewable resources;*”

Principle 7, **Global Responsibility**, which says, “*Manitobans should think globally when acting locally, recognizing that there is economic, ecological and social interdependence among provinces and nations, and working cooperatively,*

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<sup>5</sup> Available at, <http://web2.gov.mb.ca/laws/statutes/ccsm/s270e.php>

*within Canada and internationally, to integrate economic, environmental, human health and social factors in decision-making while developing comprehensive and equitable solutions to problems;” and*

Guideline 1, **Efficient Use of Resources**, which means “(a) *encouraging and facilitating development and application of systems for proper resource pricing, demand management and resource allocation together with incentives to encourage efficient use of resources; and (b) employing full-cost accounting to provide better information for decision makers.*”<sup>6</sup>

RCM submits that the principles and guidelines of sustainable development found in Schedules A and B at the end of the SDA and considerations of justice and equity<sup>7</sup> are principles that should guide the creation of provincial fiscal policy and that these require undertaking extensive and systematic Ecological Fiscal Reform (EFR).

### THE “ECOLOGICAL FISCAL REFORM” APPROACH TO TACKLING ENVIRONMENTAL ISSUES

**BUILDING BLOCKS:** The use of economic instruments and fiscal policies for achieving environmental objectives has been around for a long time. The report prepared for the Manitoba Round Table for Sustainable Development in October 1999, *Background Report on Market Incentives and Fiscal Policy*, provides a good summary of those instruments. They include the following:

- Subsidies, either direct or indirect, which lower the cost of producing a particular environment ‘good’ and thereby increase its use. They are appropriate when a particular resource which produces social benefits is underutilized.
- Removal of Perverse Subsidies which work against sustainable development. Doing so raises the price of the environmental ‘bad’ and thus discourages its use.
- Charges, Taxes, Levies and Fees are the opposite of subsidies. They raise the cost of using or producing a good that produces environmental ‘bads’ and thereby discourage its use. Furthermore, the revenues generated by these levies can be used to finance mitigation services.
- Deposit Refund Systems are a form of a levy that is refundable when the used product is returned to a designated location. The fees are typically used to finance the collection and recycling of the product.

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<sup>6</sup> “**full-cost accounting**” means accounting for the economic, environmental, land use, human health, social and heritage costs and benefits of a particular decision or action to ensure no costs associated with the decision or action, including externalized costs, are left unaccounted for (SDA section 1).

<sup>7</sup> The notion of justice has a variety of aspects. One is the idea of assessing revenues proportional to cost. A second is intergenerational equity that considers costs and benefits to future generations from actions taken today. A third is that a just society addresses the basic needs of its citizens, particularly the least well off. A fourth is obeying the just laws of the land.

- Tradable Permits are a market mechanism for buying and/or selling “pollution rights”. This is an efficient method of reducing pollution to a prescribed level where markets can be created.
- Environmental Liability is assigned through common law or environmental statutes. It is a market incentive because it causes prices in insurance, property, credit and stock markets to reflect environmental risks.
- Financial Assurance provides a guarantee that funds will be available at a future date for a specific purpose. For environmental protection purposes, financial assurance creates a financial incentive to reduce the risk that an undesirable environmental outcome will occur; and, it can ensure that an appropriate level of funding is available to address the consequences of an undesirable environmental outcome.
- Eco-Labeling is a tool to inform consumers about products’ environmental characteristics, such as recyclability, biodegradability, toxicity or the environmental impacts of the production process. It acts as an economic incentive for companies to charge a premium for their products.
- Green Procurement – is a process whereby an organization adjusts its purchasing behaviour to favour products, services or activities that minimize impacts on the environment. It can act as a market incentive for both the supplier of the green goods and services that are procured and the organization that procures them.

APPROACHES TO ECOLOGICAL TAX AND FISCAL REFORM: During the 1990’s, the debate over using economic instruments for environmental ends broadened into a discussion of ecological tax reform (ETR), or tax shifting. According to the report submitted to the Government of Canada’s External Advisory Committee on Smart Regulation, *Economic Instruments for Environmental Protection and Conservation: Lessons for Canada*, the European experience,

. . . involves not just taxing “bads” but also reducing or eliminating environmentally-perverse subsidies. It also involves using the revenues from green taxes to reduce taxes on socially desirable activities (e.g., labour and savings) or to encourage environmentally-desirable technologies (e.g., renewable energy).<sup>8</sup>

More recently, in Canada, the National Roundtable on the Environment and the Economy (NRTEE) has introduced the broader notion of ecological fiscal reform (EFR) as,

A strategy that redirects a government’s taxation and expenditure programs to create an integrated set of incentives to support the shift to sustainable development.<sup>9</sup>

The Report goes on to distinguish its approach from the ecological tax reform (ETR) or tax-shifting approach that is being implemented in many European countries.

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<sup>8</sup> See, [http://www.pco-bcp.gc.ca/smartreg-regint/en/08/rpt\\_fnl.pdf](http://www.pco-bcp.gc.ca/smartreg-regint/en/08/rpt_fnl.pdf)

<sup>9</sup> See, the report, *Toward a Canadian Agenda for Ecological Fiscal Reform: First Steps*, at [http://www.nrtee-trnee.ca/Publications/PDF/Report\\_EFR-First-Steps\\_E.pdf](http://www.nrtee-trnee.ca/Publications/PDF/Report_EFR-First-Steps_E.pdf)

For the NRTEE, EFR is a broader approach, using suites of instruments in a reinforcing package, and engaging multiple fiscal policy tools in addition to taxes and tax breaks. EFR involves:

- Redirection or introduction of new taxes or tax breaks;
- Redirection or introduction of targeted direct expenditures, such as targeted government program expenditures, government procurement, cash subsidies, and grants; and
- Other economic instruments, such as tradable permits, permitting charges, and user fees.

The common purpose of these tools is to provide incentives for producers and consumers to alter their decisions and behaviour – either to internalize environmental costs or to reward more sustainable practices.

The NRTEE report emphasizes that the unique feature of EFR is that it is a coordinated approach to tackling specific environmental issues or to achieving specific environmental objectives or goals that involves multiple departments and uses multiple instruments to achieve the desired environmental objective.

The Report describes the general conditions under which decision makers should use the EFR approach and how to apply the approach to achieving specific environmental objectives. It also describes how it has been applied to two broad environmental areas of concern – reduction of pollution from agricultural lands and provision of cleaner transportation in the diesel-based freight and mass transit sectors. These case studies provide invaluable guidance to governments in using EFR.

## **MANITOBA'S EXPERIENCE WITH GREEN ECONOMIC INSTRUMENTS**

Since 1999, the Manitoba government has introduced a number of economic and fiscal measures to improve the environment. They include:

- Expansion of the property eligible for the 10% Manitoba Investment Tax Credit to include Class 43.1 - assets that generate renewable energy and conservation for taxpayer's own consumption;
- Riparian Tax Credit to protect farmland along riverbanks and lakeshores;
- Extension of the PST exemption for firewood for heating and cooking to straw pellets;
- Odour-control tax credit - a 10% non-refundable Corporate income-tax credit for odour-reducing equipment for organic wastes;
- Elimination of the PST exemption for non-farm use of fertilizers, insecticides, fungicides, herbicides, rodenticides and weed control chemicals.

In addition to these measures, the Manitoba government has been implementing components of *The Sustainable Development Act*, including the code of practice, the financial management guidelines, the green procurement guidelines, and the development and reporting of sustainability indicators. It has also increased the number of protected areas in the Province, introduced *The Water Strategy & Water Protection Act* and provided additional funding under the Sustainable Development Innovations Fund for waste reduction, pollution prevention and climate change initiatives. Furthermore, through the funding of wind farms and the recently

announced program to produce bio-diesel, the Manitoba government has shown its commitment to reducing reliance on fossil fuels that contribute to GHG emissions.

While these measures are laudable, it is RCM's contention that they reflect a fragmented and very partial approach to addressing the environmental problems facing Manitoba. What is needed is a more comprehensive approach to achieving sustainable development offered by Ecological Fiscal Reform, of which these existing measures can be component pieces. A prerequisite of true EFR is that proposed fiscal reforms are designed as a package around an explicit environmental goal. This prevents the piecemeal approach to EFR that has been achieved by the Province to date and ensures that fiscal reforms address issues of yield, administrative efficiency, equity, and competitiveness.

### **LIMITATIONS IMPOSED BY BALANCED BUDGET LEGISLATION**

One of the limitations facing the government of Manitoba in its use of key fiscal instruments such as taxes and environmental levies is the restriction imposed by *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.<sup>10</sup> Section 10(1) of the Act stipulates that the government shall not present to the Legislative Assembly a bill to increase the rate of any tax imposed by an Act or part of an Act listed below, unless the government first puts the question of the advisability of proceeding with such a bill to the voters of Manitoba in a referendum, and a majority of the persons who vote in the referendum authorize the government to proceed with the changes:

- The Health and Post Secondary Education Tax Levy Act;
- The Income Tax Act;
- The Retail Sales Tax Act;
- Part I.1 of The Tax Administration and Miscellaneous Taxes Act, which covers the excise tax on gas, mining taxes, tobacco, etc.

However, section 10 (2) indicates that Subsection 10(1) does not apply to a bill to increase the rate of a tax if, in the opinion of the Minister, the proposed change is designed to restructure the tax burden and does not result in an increase in revenue.

It may well be that Section 10(1) of the Balanced Budget Act has led the Premier to veto the calls for the needed increases in levies and fees for the MPSC, the Tire Stewardship Board and the introduction of the fees for the now-shelved Household Hazardous Wastes legislation. However, RCM believes that section 10(2) offers a real opportunity for the introduction of needed rate increases and should be used by the government when such rate increases would be an effective tool within a package of measures stipulated by an Ecological Fiscal Reform approach to achieving environmental goals.

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<sup>10</sup> Available at, <http://web2.gov.mb.ca/laws/statutes/ccsm/b005e.php>

## USE OF DIVIDENDS FROM CROWN CORPORATIONS FOR FUNDING SUSTAINABLE DEVELOPMENT

In addition, there is non-tax revenue source available to Manitoba that is not covered by the provisions of the balanced budget legislation. The government has already recognized that dividends from crown corporations, specifically Manitoba Hydro, lie outside the provisions of the balanced budget legislation when they withdrew some \$200 million of Hydro revenues to cover a shortfall in health care funding. Such dividends, received in a regular rather than an ad hoc fashion, could be used to fund targeted tax reductions and investments in sustainability as well as other social investments.

The February 2004 report prepared for Manitoba Hydro, *Classification and Allocation Methods for Generation and Transmission in Cost-of-Service Studies*, proposes the creation of a separate export class whose earnings would be separate from the domestic classes. The previous methods were judged unacceptable by the Public Utilities Board but a new method along the lines of the report's recommendations has not yet been adopted. Provided that it can act in a timely fashion, the provincial government could seize this opportunity to formulate a policy to secure export earnings as a dividend for social investments, analogous to the Alberta Government's securing of windfall oil royalties for its Heritage Fund or to the practice of Saskatchewan's Crown Energy Corporation paying dividends to the provincial government.

## ENVIRONMENTAL GOALS FOR MANITOBA AND GREEN INSTRUMENTS FOR ACHIEVING THEM

A key message of the NRTEE approach to EFR is that one begins the process by identifying the key environmental goals or objectives to be achieved and then undertakes an analysis of the array of policy tools and instruments that are required to achieve them. In light of the environmental problems facing Manitoba, RCM offers the following goals that could be the focus of EFR efforts of the provincial government, and presents an illustrative list of the measures that could be undertaken to achieve each goal:

### Environmental Goal #1: Reducing the Level of GHG Emissions from Key Sectors of the Economy

Through the federal/provincial/territorial working groups that were created to inform the development of Canada's Climate Change Strategy, a great deal of work has been completed on identifying the most cost-effective approaches to reducing GHGs. For example, the final report of the Climate Change Transportation Table<sup>11</sup> highlighted a number of strategies -- transit pricing, transit service improvements, transit infrastructure, high-occupancy vehicle lanes, heavy-duty truck efficiency improvements, high incentives for ethanol capacity, heavy-duty truck Alternative Fuel Vehicle purchases -- as "Promising Measures," and feebates on gasoline cars and trucks as "Less Promising Measures."

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<sup>11</sup> See, [www.tc.gc.ca/programs/environment/climatechange/subgroups1/Options\\_Paper/English/default.htm](http://www.tc.gc.ca/programs/environment/climatechange/subgroups1/Options_Paper/English/default.htm)

Given the cost-effectiveness of transit improvements, it would seem appropriate for a Manitoba EFR strategy to include increased support for the kind of transit measures contained in the City of Winnipeg's Rapid Transit Task Force report, *Made In Winnipeg Rapid Transit Solution: Final Report*<sup>12</sup>. That report recommended that the benefit for large EcoPass employers be increased and that the Province restore its historical 50% share of the Transit subsidy, provide a higher proportion of funding for Handi-Transit, and dedicate a portion of the provincial gas tax to transit improvements.

Another measure which RCM recommends be supported by the provincial government is distance-based or "Pay-As-You-Drive (PAYD) auto insurance. This approach to setting insurance premiums has been implemented or piloted in a number of jurisdictions including Texas, Minnesota, Ontario, the UK, the Netherlands, Israel and South Africa. PAYD recognizes that every additional mile driven increases the risk that auto insurance covers. Therefore, low mileage drivers subsidize the insurance of high-mileage drivers, who impose greater risks and costs to the system, which is inequitable from an insurance standpoint. A PAYD approach to setting auto premiums not only improves insurance equity, it promotes sustainable development by giving drivers an incentive to drive less and thereby reduce both the environmental damage caused by GHG emissions and damage to health through emissions and accidents. Thus, a PAYD addition to the current methods for establishing auto insurance premiums would appear to be an appropriate component of an EFR strategy for Manitoba.

This prospect was raised by RCM and a companion environmental group TREE (Time to Respect Earth's Ecosystems) and by the PUB itself at the most recent MPI rate hearings. However, MPI expressed reluctance to go down this road, in part because they did not see the provincial government providing leadership to reduce the distances driven by Manitobans. Thus, provincial government leadership is needed to induce MPI to seriously investigate this approach to setting auto insurance premiums.

As for addressing the growing GHG emissions from the agricultural sector, there are a number of measures which have been proposed and introduced in other jurisdictions, such as the installation of liquid manure slurry digesters at large cattle and hog operations which convert the slurry into fertilizer and methane gas which, in turn, can be used to heat buildings or generate electricity.<sup>13</sup>

With respect to the problem of methane production from landfills, the Province could establish regulations requiring all landfills with a capacity of 1 million tonnes or more to install systems to capture and combust methane gas; or, alternatively, to ensure that such recovery facilities have access to the electricity grid and that landfill methane from existing landfills be recognized as a source of 'green power'.<sup>14</sup>

The overconsumption of energy at home or in the commercial, industrial and institutional sectors is intimately linked to GHG emissions either directly (when natural gas or other fossil fuels are burned) or indirectly (when using up renewable resources locally that could be exported, at a

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<sup>12</sup> Available at, [www.winnipeg.ca/cao/pdfs/news\\_releases/RTTFFinalReport.pdf](http://www.winnipeg.ca/cao/pdfs/news_releases/RTTFFinalReport.pdf)

<sup>13</sup> See, [www.epa.gov/methane/rlep/faq.html](http://www.epa.gov/methane/rlep/faq.html); [www.epa.gov/methane/rlep/resources.html](http://www.epa.gov/methane/rlep/resources.html); [www.epa.gov/agstar](http://www.epa.gov/agstar)

<sup>14</sup> See, [www.pembina.org/pdf/publications/web.pdf](http://www.pembina.org/pdf/publications/web.pdf) for a list of GHG reduction measures.

profit, to displace fossil fuels in other jurisdictions). Through a series of interventions before the PUB, RCM and TREE have sought to bring EFR principles to the rate structures and DSM investments of Manitoba Hydro, Centra Gas and MPI. However, both Centra Gas and MPI have pushed back, in part because they did not perceive the provincial government to be directing them to behave in this fashion through legislation or policy. Thus, the province needs to provide clear direction to these crown corporations to implement sustainable development principles in their rates, incentives and other policies and programs.

### Environmental Goal #2: Improving Water Quality of Lake Winnipeg

The *Lake Winnipeg Stewardship Board - Interim Report, January 2005* lists 87 recommendations which could be undertaken to reduce the nitrogen and phosphorous loadings to pre-1970s levels. In the subsequent hearings held to obtain public response to those recommendations, there was concern expressed about the cost of implementing a number of the measures that involved the introduction of fees and charges on activities that are polluting. There was also concern expressed that none of the recommendations identified the large role played by hog producers.

In response to these concerns, RCM would emphasize that the Province has been incurring substantial costs flowing from such water pollution and that a well designed EFR package of measures should include required taxes and charges along with offsetting subsidies to enable polluters to switch to less polluting practices.

### Environmental Goal #3: Reducing/Eliminating Waste Disposal in Manitoba

In its brief to the Minister of Conservation on minimizing waste in Manitoba, RCM recommended that the "Extended Producer Responsibility" model be adopted to effectively address key sources of waste like packaging, electronics, tires and oil and household hazardous wastes. This model places the onus on either the manufacturer or primary distributor of these materials to create and finance a program for the collection and recycling of these materials. The virtue of this form of financing is that it gives the manufacturer and distributor an incentive to minimize the costs of such a program through redesign of products.

In its recent meeting with the new Green Manitoba Eco-Solutions special operating agency, RCM was encouraged to hear that one of the agency's first orders of business will be to develop EPR models for the recycling of these materials.

## **CONCLUSIONS AND RECOMMENDATIONS**

### CONCLUSIONS

- Manitoba faces increasing environmental degradation unless strong, coordinated action is taken to address key environmental problems.
- There are a proven array of economic instruments available to address these problems.
- Manitoba has made limited use of these economic instruments to address its environmental problems and its Balanced Budget legislation constrains but does not prevent their future use.

- In particular, if the province were regularly to receive a dividend from Manitoba Hydro's export earnings, it would reduce the perverse subsidy of electricity consumption in Manitoba and provide a new stream of income for sustainability and social investments and targeted tax relief.
- Key crown corporations are resistant to adopting sustainable development principles for the setting of rates to promote conservation and efficiency.
- The ecological fiscal reform approach being developed by the NRTEE offers an effective way of bringing these instruments together with other measures to achieve environmental objectives and the legislated requirement that government and its agencies will promote sustainable development.

## RECOMMENDATIONS

1. That the Minister of Finance instruct his officials to study the work undertaken by the NRTEE and other jurisdictions on Ecological Fiscal Reform and the interventions by RCM and TREE before the Manitoba PUB with the objective of identifying how they can be used to address the key environmental problems outlined in this brief.
2. That Finance Department staff meet with the staff in the other departments and Crown Corporations responsible for addressing the key issues of greenhouse gas emissions from transportation and agriculture and from the overconsumption of gas and electricity, water quality, and waste minimization, to apprise them of how EFR can be used to better meet their objectives.
3. That, in keeping with the requirements of *The Sustainable Development Act*, the Manitoba Roundtable on Sustainable Development be asked to advise on the development of an EFR approach to sustainable development and consult with interested and expert parties, such as RCM and the IISD, in developing its recommendations.
4. The inter-departmental task teams comprised of Finance department and other department officials be created to achieve key environmental goals. These task teams could take the form and have the type of mandate of the Treasury Board's inter-departmental budget committees on Low Income Children and Families and Early Childhood Development.
5. That the PUB and the regulated utilities - Manitoba Hydro, Centra Gas and Manitoba Public Insurance - be instructed to apply the principles and guidelines of sustainable development not only in their internal operations but also in the setting of rates and fees to encourage a more sustainable and efficient use of resources and reduction of GHG emissions as well as other social objectives affected by their domains of responsibility.
6. That the Finance Department and Energy, Science and Technology assess, in a timely fashion, the potential of appropriating some or all of the net export dividend from Manitoba Hydro as a funding source for investments in sustainability and other social purposes.

## REFERENCES

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