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SUSTAINABLE DEVELOPMENT: SOME IMPLICATIONS FOR THE 1993 ONTARIO BUDGET

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I. INTRODUCTION

According to the report of the United Nation's World Commission On Environment and Development (the Brundtland Report), sustainable development is:

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs."¹

Moreover, according to the Brundtland Report, the concept of needs implies that overriding priority should be given to meeting the needs of the world's poor.

The concept of sustainable development is a radical challenge to the historic prime public policy objective of senior levels of government, namely, a rapid rate of growth of the GNP. According to sustainable development, a rise in the GNP or the quantity of market-traded goods and services is only in the public interest to the extent that it is a means to meet the needs of present and future generations. Furthermore, according to economic theory, there is no reason to assume that an unregulated private enterprise economy will automatically meet the needs of present and future generations. Therefore, the principle of sustainable development entails that the economy must be managed by governments in order to ensure that the needs of the present and future generations are met.

The following discussion addresses some of the implications of sustainable development for Ontario's energy policy as it relates to the provincial sales tax, the Ministry of Energy's Industrial Partnership and Enersearch Programs and the Ontario Energy Board. The province's Green Industry Strategy, approach to municipal solid waste management, and the issues of environmental assessment reform and regulatory streamlining will also be examined.

II. ENERGY POLICY

Sustainable development implies that industrial nations must substantially reduce their energy consumption since the world's existing level of energy consumption is endangering our health and jeopardizing the ability of future generations to meet their needs (e.g., global warming, nuclear wastes, acid rain, urban smog, toxic air pollution).

Fortunately, the Government of Ontario is firmly committed to the conservation of energy. As the Deputy Minister of Energy stated in a letter to the Ontario Energy Board:

"Conservation is the priority in meeting energy needs in Ontario."²

Moreover, the Ontario Round Table on Environment and Economy, under the leadership of the Honourable Ruth Grier, has recommended that:

1. greenhouse gas emissions must be stabilized, then reduced, below the 1990 level by the year 2000;
2. carbon dioxide emissions must be reduced by 20% by 2005 and by 70% to 80% by 2030; and
3. Ontario' energy intensity - the amount of energy used for each constant dollar of real gross domestic product - should be reduced by 3% per year for the next 10 years.³

i) The Provincial Sales Tax

Unfortunately, Ontario's tax policies are not consistent with its energy policies. To be specific, energy conserving products and appliances (e.g., low E argon-filled windows, super-efficient furnaces and water-heaters) are subject to the provincial sales tax; whereas the consumption of electricity, natural gas and oil are exempt from the provincial sales tax. That is, the status quo provincial sales tax regime penalizes energy conservation and subsidizes energy consumption.

Thus it is our recommendation that the provincial sales tax exemption for electricity, natural gas and oil should be eliminated. It is important to note that "[m]achinery, equipment or processing material purchased for the use of a manufacturer" are exempt from the provincial sales tax.⁴ Thus our recommendation does not entail that the provincial sales tax would be applied to industrial consumers of energy.

According to the Ontario Ministry of Energy, Ontario's 1991 residential expenditures for electricity, natural gas and oil were \$3.2 billion, \$1.4 billion and \$433 million respectively. Furthermore, 1991 commercial sector expenditures for electricity,

natural gas and oil were \$2.6 billion, \$635 million and \$139 million respectively.⁵

Thus Ontario's total 1991 residential and commercial sector expenditures for electricity, natural gas and oil were approximately \$8.4 billion.

Therefore a provincial sales tax on residential and commercial sector electricity, natural gas and oil consumption would yield annual revenues of approximately \$672 million for the Government of Ontario.

Unfortunately, a sales tax is a regressive tax. That is, it will cause a larger percentage reduction in the disposable incomes of low income citizens than of middle or high income citizens. Thus if the provincial sales tax exemption for electricity, natural gas and oil is eliminated a portion of the incremental tax revenues must be used to finance a refundable tax credit for low income citizens. The refundable tax credit must be sufficiently large so as to ensure that low income citizens are no worse off as a result of the elimination of the sales tax exemption for energy.

In addition, it is important to note, that the adverse energy bill impacts of a provincial sales tax on energy could be mitigated by the aggressive promotion (sale, rental and/or financing) of energy conserving products and appliances by Ontario Hydro, the municipal electric utilities, Centra Gas, Consumers' Gas and Union Gas.

Should Electricity Continue To Be Exempt From The Provincial Sales Tax?

Some will argue that it would be inappropriate to levy a sales tax on electricity in 1993 since real electricity rates have risen by 22% over the past four years. If this argument is deemed to be persuasive, there are a number of options available to the Minister of Finance.

First, electricity could be exempt from the provincial sales tax. A provincial sales tax on natural gas and oil would produce annual tax revenues of approximately \$208 million.⁶

Second, a provincial sales tax of less than 8% could be levied on electricity. For example, a provincial sales tax of 2% for electricity and 8% for natural gas and oil would produce annual tax revenues of approximately \$324 million.

Some will argue that a provincial sales tax on electricity would impose an undue burden on residential customers who use electricity for space heating. In addition, it will be argued that this burden would be especially unfair for residents who do not have access to natural gas. If this argument is deemed to be persuasive, electric heating customers could be exempt from the provincial sales tax on electricity. Alternatively, the exemption could be limited to electric space heating customers who do not have access

to natural gas service.

ii) The Ministry of Energy's Industrial Partnership and Enersearch Programs

The Industrial Partnership Programs help firms evaluate how they use energy and provides incentives to encourage investments in energy-efficient technologies. The Enersearch Program supports research, testing and initial technical demonstration of innovative technologies.

The Ministry of Energy's fiscal 1992/93 budget for these programs was \$11.9 million.⁷

In principle, all such programs that are designed to promote the conservation and efficient use of electricity and natural gas should be operated and financed by Ontario's electric and gas utilities (Ontario Hydro, the municipal electric utilities, Centra Gas, Consumers' Gas and Union Gas).

iii) The Ontario Energy Board

The O.E.B. regulates Ontario's gas utilities and reviews Ontario Hydro's rate proposals.

If the O.E.B. adopts ratemaking rules which will ensure that the aggressive, creative and innovative implementation of all socially cost-effective conservation options is a gas utility's most profitable course of action, the O.E.B.'s procedures could probably be streamlined and its budget reduced.⁸ Unfortunately, Centra Gas and Union Gas are opposed to regulatory reforms which would make conservation a utility's most profitable course of action. On the contrary, Centra Gas and Union Gas want to continue to be financially penalized if they promote conservation.⁹

III. GREEN INDUSTRY STRATEGY AND ENVIRONMENTAL RESEARCH AND DEVELOPMENT

As stated in our letter to the Hon. Ed. Phillip, the Minister of Industry, Trade and Technology of August 10, 1992, regarding the Ontario government's Industrial Policy Framework, the Institute welcomes the government's identification of important linkages between industrial and environmental policy. These have included the recognition of the economic opportunities inherent in the development of a strong "green" industrial sector in the province. The potential connection between the "greening" of existing industries and enhanced competitive position, noted by such individuals as Michael Porter, has also been acknowledged.

However, the government's efforts to act on these principles to date have been limited. We have seen little evidence of a "green industry strategy" beyond the statement that such a strategy exists. At this stage, the government ought to be giving some thought to the strategic roles that it wishes the environmental industry sector to play in Ontario's economy. This would include its role in relation to the restructuring of domestic industries and its export potential. It is important to note that a number of other industrialized jurisdictions, particularly in Western Europe have been making strategic linkages between industrial and environmental policy over the past decade. Ontario might do well to examine their experiences and approaches in some detail.

With respect to specific programs, the Industrial Partnership Program and Enersearch Program of the Ministry of Energy and the Ministry of the Environment's Environmental Research Program each appear to be providing useful assistance to existing Ontario industries and to the development of new technologies. However, the level of support for these programs remains quite modest. Recent research by the Institute indicates that a number of Canadian provinces are establishing dedicated funds for environmental technology development based on the revenues from environmental levies, such as tire taxes. Ontario might consider a similar approach. The transfer of funding responsibility for energy related programs to energy utilities, as proposed in the Institute's submission regarding energy issues is another possibility.

The Institute's research regarding the focus of the existing Environmental Research Program of the Ministry of the Environment indicates that the primary focus since the program's establishment in 1990 has been on "end-of-pipe," "pollution control" technologies. This approach to environmental protection is increasingly regarded as outdated and of limited effectiveness. Consequently, we welcome the Ministry of the Environment's recent indications that it intends to refocus its research and technology program on "pollution prevention" approaches through an Applied Pollution Prevention Program. This should be of assistance to Ontario industry not only in terms of meeting rising environmental standards, but also in its restructuring towards processes which are more efficient in their use of energy and resources.

IV. MUNICIPAL SOLID WASTE MANAGEMENT

The Institute has welcomed the level of attention given to solid waste management issues by the Ontario government over the past two years. It is important to recognize that public interest and concern regarding solid waste management issue extends far beyond the Kirkland Lake and GTA siting questions. In this context, we have welcomed the government's focus on waste reduction, the first element of the 3Rs hierarchy.

The Waste Reduction Office of the Ministry of the Environment has launched a wide range of initiatives over the past two years. While many of these measures have yet to be fully implemented they will, in the long term, have a significant impact on waste diversion in Ontario and place the solid waste management system on a sound and sustainable financial basis. It is therefore critical that the Waste Reduction Office continue to be given the resources necessary to complete and implement these initiatives.

The WRO's efforts to introduce a product stewardship system in Ontario, as proposed by the Waste Reduction Advisory Committee (WRAC), will be particularly important in this sense. Such an approach has support in principle from a wide range of sectors, including municipalities, producers and the environmental community. The development of the regulatory and policy framework to implement the produce stewardship principle is occurring on an ongoing basis. This will result in substantial long-term financial savings to the province in the operation of the waste diversion system.

The Ministry of the Environment's technology development programs in the area of solid waste 3Rs have been identified as being critical to the development of a viable 3Rs system in Ontario. It is important that targeted support for these efforts continue.

The government's green workplace initiative is also noteworthy, although it has been slow in its implementation. The procurement practices of governments have been widely identified as a key element in the development of markets for recycled materials. We hope to see a continuation and expansion of the government's efforts in this area.

The Institute strongly supports the overall direction taken by the government on solid waste issues, and hopes that the level of commitment shown by the government in this area over its first two years in office, will continue.

V. ENVIRONMENTAL ASSESSMENT REFORM AND REGULATORY STREAMLINING

The need for reform of the existing environmental assessment procedures in Ontario is increasingly acknowledged. However, the Institute is of the view that these reform efforts must not compromise the integrity and purpose of the assessment process. The problems of delay and uncertainty which have been associated with the process should not be dealt with by expanding the scope of exemptions from the process. Rather, there is a need for procedural reforms regarding the hearing process and the role of the government review stage. The broader question of the role of the assessment process as a policy-making forum must also be considered.

With respect to the government's streamlining of the environmental approvals process under the Environmental Protection Act, the Institute agrees with many other members of the environmental community in the view that the streamlining of the process should not be synonymous with removing public participation and public accountability from the decision-making process. In making the process more efficient, predictable and cost-effective, the government must not compromise its mandate to protect the environment and public health and welfare. In this context, great care must be taken that essential elements of the approvals process are not removed.

The Institute strongly supports the proposed Environmental Bill of Rights in principle. We have suggested that the position of the Environmental Commissioner be enhanced substantially, and that steps be taken to ensure that adequate resources are available for the operation of the environmental registry system. The task force seems to be on course to develop a bill which will enhance public participation in the environmental decision-making, while not running the risk of a significant increase in the degree of judicialization of Ontario's environmental politics and policy-making. The Institute will welcome further opportunities for input on this important initiative when the final report of the task force and draft bill are released.

ENDNOTES

1. World Commission On Environment and Development, Our Common Future, (Oxford: Oxford University Press; 1987), p. 43.
2. Letter to S.A.C. Thomas, Secretary, O.E.B. from George Davies, February 28, 1992.
3. Ontario Round Table on Environment and Economy, Restructuring For Sustainability, (September 1992).
4. Retail Sales Tax Act, Chapter R.31, page 26.
5. Fax from Ms. Hilary Snow, Ontario Ministry of Energy, January 27, 1993.
6. A provincial sales tax on natural gas, but not electricity, could be in the public interest for the following reasons. First, the gas bill for a typical residential customer of Union Gas has declined, in nominal terms, by 6% between 1982 and 1993. In real terms it has declined by approximately 40%. [Ontario Energy Board, E.B.R.O 476-03, Ex H3, Tab 6, Sch. 6, p. 2]
Second, exempting electricity but not natural gas from a provincial sales tax would not eliminate the existing substantial financial incentive for consumers to switch from electricity to natural gas for space heating, water heating, cooking and drying. To be specific, according to Union Gas, residential electricity rates are approximately 3.5 times higher than residential natural gas rates. [Ontario Energy Board, E.B.R.O. 476-03, Ex. C3, Tab 3, Sch. 4, p. 1]
7. Fax memo from Jean Daigneault, Ontario Ministry of Finance, February 9, 1993.
8. As the O.E.B. Staff, Consumers' Gas, the Coalition of Environmental Groups, the Consumers Association of Canada (Ontario), the Ontario Metis and Aboriginal Association and Pollution Probe have all agreed:

"Decoupling the link between distribution revenues and natural gas throughput volumes and the implementation of a strong DSM [demand side management] incentive structure will reduce the likelihood of needing to apply a formal, prescriptive IRP [integrated resource planning] process to achieve IRP goals." [O.E.B., E.B.O. 169-III, Ex. 1.10, Issue #10]

See also Martin Mittelstaedt, "Boosting profits by cutting sales", The Globe and Mail, November 9, 1992.

9. See Ontario Energy Board, E.B.O. 169-III, Arguments-In-Chief and Reply Arguments of Centra Gas, Pollution Probe and Union Gas.