Pre-Budget Submission for the Federal Government 2021 Budget

The Business Council of Alberta (BCA) is pleased to provide ideas and recommendations to the Government of Canada in advance of its 2021 budget. We are a non-partisan, non-profit, for-purpose organization composed of the chief executives and leading entrepreneurs of the province's largest enterprises. Our members represent the majority of Alberta's private sector investment, job creation, exports, and research and development. We are dedicated to building a better and more prosperous Alberta within a strong Canada.

Last year Canada saw the unexpected convergence of economic, social, and health challenges which upended our lives and threatened our businesses. It also stalled progress by industry and government on key files for Canadians' shared prosperity, such as action on climate change and investment in human capital and productivity. In response, the government committed to support people and businesses through the crisis—"as long as it lasts and whatever it takes"—and to create a stronger, more resilient Canada.

Recent data show Alberta's economic state remains more precarious than other provinces and is least likely to recovery fully or quickly. A protracted recovery in Alberta not only has long-term consequences for the province itself, but it also threatens to erode Canadian prosperity, dismantling Canada's commitment to build back better, or even "build back" at all. Compared with other provinces, the data show Alberta faces:

- Higher unemployment: The provinces of Alberta and Newfoundland and Labrador have consistently seen the two *highest rates of unemployment* every month over the last year.
- Longer periods of time out of work: Over half of those unemployed in Alberta have been out of work for at least three months, *the highest percentage* of any province, and 12% have been out of work at least a year. Employment is not expected to return to its pre-COVID level in Alberta until 2022, a year later than other provinces.
- A deeper downturn: Alberta is expected to show the biggest economic decline of any province for 2020, with a loss of 7.3% in GDP versus 2019, *50% larger* than the average of other provinces. For 2021, continued weakness in economic activity in Alberta is expected to be *4 times greater* than the average of other provinces.
- Greater fiscal strain: Because of the additional impact of low oil prices through most of 2020 and given the importance of resources to Alberta's provincial budget, Alberta faces limited financial capacity to provide its own stimulus support.

In its fall 2020 fiscal update, the federal government announced that it will be spending up to $100 billion on a stimulus plan to kick-start Canada's economic recovery. Because of the federal government's enlarged debt burden due to COVID, this money needs to be spent strategically, in a way that sets Canada up for future prosperity, and, in so doing, brings about a sustainable fiscal future. Given the disproportionate impact of the pandemic on the

Alberta economy, we believe that a disproportionate share of those funds should be spent in Alberta. If spent according to need—as measured by the gap in employment and economic activity—this would mean roughly 45% of the fiscal stimulus would be spent in Alberta, for the greatest impact on Canadian jobs and recovery.

Doing so will not only boost economic growth in a struggling part of the country, but it also presents an enormous opportunity to help the federal government achieve its climate goals—a key priority in its efforts to build back better.

As the largest producer of energy, representing 56% of Canada's energy GDP, Alberta also accounts for the greatest share of Canada's GHG emissions (37%). This means Alberta must play a central role in helping Canada meet its climate targets. More than that, as mentioned in the Speech from the Throne, Alberta has the essential ingredient of know-how, along with existing capital and resources, to both reduce emissions and add economic value. Alberta just needs the spark to jump start progress.

With an enabling framework and early investment, Alberta can turn from a liability in Canada's economic recovery to a valuable asset in building back better. Specifically, we believe reaching full employment, reducing emissions, and adding value to the Canadian economy will require: 1) regulatory reform to encourage investment attraction 2) adequate incentives to support strategic investments and 3) a willingness to place big bets. To this end, the following is a list of policy items we would like to see reflected in the federal government's 2021 budget:

Getting through the crisis—Immediate Term

1. **Prioritize vaccine procurement and development above all other initiatives.**

   Canada's economic recovery hinges on access to vaccines. Canada is currently facing delays in procuring doses as companies work to secure their supply chains and ramp up production, while foreign governments are prioritizing access for their own citizens. In the face of a mutating virus, there may be need not just to secure two doses for each Canadian, but for booster shots to combat those mutations. Given the cost to date of the economic shutdown, access to vaccine supply needs to be Canada's top priority in order to recover faster and avoid another shutdown.

   While foreign supply may be uncertain, Canadian companies are conducting clinical trials of their own vaccines, including one Calgary-based company that has also developed an entirely made-in-Canada supply chain. The federal government should provide significant financial support for the development of Canadian-made vaccines and manufacturing capacity. This should be Canada's highest budget priority. Any money spent on vaccine development and production will easily pay for itself by reducing the need for income supports sooner and returning to more normal economic conditions.

2. Provide meaningful support to heavily impacted large businesses—such as airlines, resources, and tourism—which continue to lag in recovery.

The need for such action was outlined in the recommendations from the report from Canada's Industry Strategy Council's *Restart, Recovery and Reimagine Prosperity for All Canadians* (Restart: Recommendation B). The recently announced loan guarantee, Highly Affected Sectors Credit Availability Program (HASCAP), is a good start to help some of the hardest hit businesses. However, it is too small in scale and scope to adequately address the needs of larger businesses, some of which are critical for national security and independence. In particular, airlines face unique challenges. They require both greater financial support than what is available via this loan guarantee program and a federally funded testing program for all airport arrivals along with related policies to enable safe travel.

3. Develop and implement a made-in-Canada approach to support major GHG emission reduction projects that allows Canada to compete for green investment.

The United States has introduced a wide range of supports for major emissions reduction projects at the federal and state levels. These incentive programs—of which the 45Q tax credit is the most widely known—are designed to provide a predictable stream of revenue for those projects, enabling proponents to finance them through private-sector investment. We recommend that a made-in-Canada policy framework with similar outcomes to 45Q be part of Budget 2021.

We appreciate that a program like 45Q cannot be directly adopted in Canada because of differences in tax systems between the two countries. At the same time, the 45Q credit is just one of several overlapping incentives that attract investment to the US. As such, we believe the federal budget should include a program to support major projects (such as CCUS or hydrogen) with the following features:

- The federal investment should be significant: The federal government should be prepared to allocate $30-40 billion dollars over the next decade to support major emissions reduction projects that contribute to Canada's Paris and net zero goals. Early investment will enable technologies like CCUS to move down the cost curve and achieve broader deployment prior to 2050.
- The federal investment should be predictable: The federal government should be prepared to enter into 20–25-year arrangements with companies providing a fixed level of support in order to show a predictable revenue stream that enables private sector financing.
- The federal investment should be aligned with other support mechanisms: The US examples shows that successful project financing requires a number of types of government support. We recommend that the federal government align mechanisms, such as low-cost financing from the Canada Infrastructure Bank, crediting through federal and provincial regulatory systems, and support for early-stage technology investment to ensure projects have the highest likelihood of success.

As well, given that project approvals, environmental assessments and other regulatory measures in Canada are considerably lengthier than they are in the US, we recommend that the federal government provide clear direction to regulatory agencies to streamline regulatory processes for major emissions reduction projects—a regulatory Nexus Card or express lane for projects that can reduce emissions in the near term.

Building back better—Within 12 months

4. **Prioritize Alberta in investment of skills training through the Workforce Development Agreement.**

   The federal government has committed $1.8 billion for 2020-21 and $4.2 billion for 2021-22 as a part of the Workforce Development Agreement with the provinces to invest in training and skills development. To support an inclusive recovery, and thereby maximize the impact of this investment, dollars should be allocated not just based on population size but rather based on need. This means, for 2020-21, spending should be in line with the current level of unemployment by province, where provinces with a higher rate of unemployment receive an outsized share, supporting provinces and individuals most impacted. For the following years, dollars should be allocated to support a just transition to a lower-carbon economy. In other words, spending should be aligned with the extent of technological change and economic disruption due to climate change and related policies. This will help to support workers who will be the most heavily affected, including those in heavily impacted sectors, with lower income, and certain demographic groups. This investment—together with policies which minimize barriers to participation such as childcare—would position these individuals for success and be a part of a framework for inclusive economic growth.

5. **Accelerate approvals for shovel-ready infrastructure projects and support 5G connectivity as a recovery enabler.**

   BCA members, and companies across Canada, have billions of dollars in shovel-ready projects that could help to kick-start the economic recovery. To get these projects underway as quickly as possible, we recommend:

   - Accelerating regulatory approvals and infrastructure funding;
   - Improving investment incentives for green infrastructure projects that have environmental benefits but may not be economically viable; and
   - Removing requirements for matching funding from provincial and/or municipal governments.

   In addition, BCA members identified the buildout of 5G infrastructure as both an economic stimulus opportunity as well a horizontal enabler. 5G access unlocks significant potential in a wide range of emerging and established industries, from artificial Intelligence to manufacturing to agriculture, and it is critical that these opportunities be available to rural Canada as well as urban areas. For Canada to be a world leader in this area, the federal government should provide significant investment incentives, such as spectrum policy and other means, to expand Canada's 5G network in both rural and urban areas to stem deepening of the urban-rural divide.

6. **Expand the list of eligible expenses that qualify as "clean investment" under the Capital Cost Allowance program.**

   To further encourage investment in short-term effort to reduce carbon emissions, and to incentivize the development of innovative new approaches and technologies, the federal government should allow businesses to add new technologies to the list of eligible expenses, provided they can demonstrate that the tech in question has a clear environmental or emissions reduction benefit. Eligibility should be based on performance criteria associated with emissions reductions and not viewed as fossil fuel subsidies—a clear recommendation from the Final Report from the Expert Panel on Sustainable Finance (Recommendation 12.1 b).

7. **Create a 30-year, $30 billion Canada Climate Innovation, Technology and Export Initiative to fund public-private research and development in emissions reduction technologies, low-carbon fuels and alternative products using energy assets.**

   The key to long-term growth in a low-carbon future will be to develop and deploy new technologies that reduce emissions and develop alternative uses for Canada's energy assets. This will require placing big bets—in line with the large amounts committed by Canada's peers—to be the "first mover" and build a competitive advantage which will support good jobs and prosperity for Canadians for decades. With a surplus of office space in its city centres, the nature of its economy, the oversized opportunity to reduce emissions, and in addition to the key assets mentioned above, Alberta would be well-suited as a headquarters for this initiative.

   This initiative will support the research and development of short-, medium-, and long-term climate solutions to de-risk expensive or unproven technologies; accelerating testing and scaling to commercialization (including associated funds and capital); and enhancing commercial viability and export of those solutions. Examples include:

   a. Short-term: lowering the cost of carbon capture and sequestration; biofuels technology; renewables; nature-based solutions; geothermal; sustainable agriculture
   b. Medium-term: carbon utilization; bitumen beyond combustion; battery storage; small modular nuclear technology; direct air capture
   c. Long-term: hydrogen fuels; nuclear fusion

8. Create a world-leading competitive and innovative policy environment.

A full economic recovery for all, along with a meaningful reduction in GHG emissions, cannot happen without, at minimum, hundreds of billions of dollars in private sector capital investment. To attract that investment, Canada must first create the world's most competitive and enabling business environment. This means the federal government should:

a. Make Canada a global innovation hub: Work with business leaders to create the world's most attractive environment for the testing, commercialization, and scaling of technologies and innovations. Implement a national data and IP strategy, as well as recommendations from the "Reimagine" portion of the Industry Strategy Council report issued December 2020, estimated at $130-170B.
b. Implement recommendation 1 from the *Final Report from the Expert Panel on Sustainable Finance*: Map Canada's long-term path to a low-emissions, climate smart economy, sector by sector, with an associated capital plan; and implement the Resources of the Future Lighthouse concept with sufficient capital (e.g. $1 billion) to gain traction.
c. As stated in *Canada's Economic Strategy Table Report: Resources of the Future*, make Canada's regulatory system outcomes-driven, stringent, flexible, timely, and predictable; aligning with global best practices. This aligns with the basis for the approach on policy and regulation in the *Final Report from the Expert Panel on Sustainable Finance.*
d. Facilitate large complex carbon management projects nationally by allowing companies to use offset credits from any region of the country to meet their carbon reduction obligations in any other location of the country.
e. Allow international carbon credits to be used to meet companies' Canadian carbon obligations anywhere in Canada (including progressing definition and support for Article 6 in the Paris agreement).

The federal government is facing unprecedented challenges as it prepares its 2021 budget: pandemic spending pressures remain, deficits are at record levels, and further stimulus is needed. Taken together, this means the quality of stimulus spending will be equally as critical as the quantity of spending. Simply building more roads and overpasses won't work this time. It is not enough to just "spend": stimulus spending must enable both economic recovery and longer-term growth and—in line with Canada's commitment to building back better—should also help to set a pathway for Canada's leadership in innovation, talent, and meaningful emissions reduction. At the same time, the federal government needs to establish fiscal guardrails to ensure that debt-servicing costs remain manageable in future. Alberta fits squarely as Canada's biggest opportunity for achieving both economic recovery and climate action. With the enabling framework and right investment as outlined above, Alberta can shift from a potential liability for Canada to its greatest strength.