# Implementing Strategically Sustainable Policies for Canada?

Sustainable Prosperity's Comments on the Proposed Federal Sustainable Development Strategy

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**SUBMISSION** 

Sustainable Prosperity is a national research and policy network based at the University of Ottawa.

SP focuses on market-based approaches to build a stronger, greener economy. It brings together business, policy and academic leaders to help innovative ideas inform policy development.

Reviewers / Contributors to this Report: Prof Markus Gehring (University of Ottawa); Prof Konstantia Koutouki (University of Montreal), Dr David Boyd (University of British Columbia), Erick LaChappelle (University of Toronto), Mark Purdon (University of Toronto), Alex Kenny (HEC Montreal) & Jonathan Holmes (University of Ottawa).

**Contact:** Jenna Dunsby SP Network Coordinator 613.562.5800 x 3342 jdunsby@sustainableprosperity.ca



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#### 1. Introduction

The development and release for consultation of the draft 'Planning for a Sustainable Future: A Federal Sustainable Development Strategy for Canada' is a positive step by the federal government, and is very much appreciated. As we prepare to take on the challenge of ensuring that our economy and society can be developed in a way that is environmentally sound, the government of Canada is to be congratulated for willingness to engage Canadians on these matters.

The challenges facing Canada, in terms of how this country can develop more sustainably, are tremendously important for present and future generations of Canadians, and for the world. Across our country, we are already feeling the impacts of climate change; this year the arctic ice cap was almost 33 percent smaller than its average size from 1979 to 2000. High levels of air pollution in major Canadian urban regions such as Vancouver, Toronto, Montreal and Saint John are directly affecting the health of millions of Canadians. 1 The impacts of water shortages in other urban and rural areas, especially in the Prairies and Central Canada, are only just starting to be felt. And reports put the area of forests under pine beetle attacks in British Columbia at 13.5 million hectares. As highlighted in the introductions to the draft Federal Sustainable Development Strategy, Canada's economy, while a powerful tool, is not currently geared to take such impacts into account. Environmental considerations do not yet inform the decisions we all make, in government, in business, as individuals. Part of the reason is prices. Local food often costs more than imported food, because we do not pay for the climate change caused by getting it to our tables or the damage to soil and water from poor farming practices. Recycled paper usually costs more, too, because we do not pay for the loss of virgin forests or for the water and air pollution from making non-recycled paper. In Canada, we are lagging behind many other countries in putting more sustainable marketbased policies into practice. Such approaches fall into two main categories: (1) creating markets for nature's environmental services that we now treat as free; and (2) adjusting fiscal policy to better integrate environmental costs and benefits. Lacking the correct pricing signals, well-intentioned Canadians continue to make millions of rational economic decisions, every day, which add to the environmental impacts of our society and our environment.

The following *SP Comments* are provided from a perspective of academic leaders and policy experts who have come together through Sustainable Prosperity, to explore the policies that could make our markets work *for* the environment. Sustainable Prosperity is a national research and policy network which focuses on market-based approaches to build a stronger, greener economy. We bring together business, policy and academic leaders to foster the innovative thinking necessary to inform policy development. Our focus is on building a Canadian economy that values our natural world and is positioned to compete in the global, green economy of the future. We inject ideas into public dialogue in compelling and nonpartisan ways, by sharing advanced research, by facilitating innovative conversations, and by pioneering smart solutions - forward-looking initiatives to shift public policy toward sustainable economics. We enclose a brief set of reactions and proposals which we hope will be helpful to inform further federal deliberations on this Strategy, and to identify future directions for the elaboration of the Strategy. In these *SP Comments*, we seek to encourage the *Draft Federal Sustainable Development Strategy* to activate workable solutions that move us towards a future where the most ecologically restorative choices that Canadians make in their daily lives are also the choices that cost less.

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<sup>&</sup>lt;sup>1</sup> According to new data, ground-level ozone has risen 13% from 1990-2007 <a href="http://www.ec.gc.ca/indicateurs-indicators/default.asp?lang=En&?WT.mc">http://www.ec.gc.ca/indicateurs-indicators/default.asp?lang=En&?WT.mc</a> id=CESI3>



### 2. Activating Markets for Sustainability: General Comments

In general, we are impressed with the overall focus on implementation, and on the identification of practical strategies to achieve overall targets, in this *Draft Federal Sustainable Development Strategy*. This focus is admirable. We have three general comments which we hope can contribute to achieving the implementation that is sought.

#### 2.1 Enabling Capacity through Markets:

Our first comment involves the adoption, in this Strategy, of the 'LEAD' approach: Leading by example, Enabling capacity, Advancing knowledge and communications, and Demanding performance. In our view, this approach is intriguing, and potentially very useful. But the current *Draft Federal Sustainable Development Strategy* has scope for a great deal of further pragmatic innovation to truly take advantage of the framework. At present, the Draft identifies implementation strategies that rely too much on information programs, command-and-control rules, and voluntary guidelines to realize many of the laudable objectives and targets. A more diverse and balanced mix of instruments is needed. Today's markets are powerful, sophisticated tools, especially in Canada. There is a great deal more that could be done to activate and strengthen programs in order to send clear price signals to market actors to incentivize them to make decisions that are consistent with building a green economy, providing more efficient and effective ways to grow sustainably.

A clear opportunity exists in this *Strategy* to encourage and adopt new forms of measurement and new policies in order to integrate environmental costs into the actual prices of services and products. One small but encouraging example of plans to activate these new policy tools is found in Theme 3 on Protecting Nature at 6.1.3, where the Government, through Environment Canada, commits to "develop and apply models for economic valuation of ecosystem services to support sustainable development decision making." This implementation strategy has the potential to be highly influential, and to contribute significantly to the goals of the Strategy.

But in the current draft, this strategy is perceived simply as a way of 'advancing knowledge and communications,' rather than being recognised and concretized as a key mechanism for 'enabling capacity', as it should be. The implication is that such economic valuation systems, which have recently come of age and proven themselves through global assessments such as The Economics of Ecosystems and Biodiversity (TEEB) Report, are nothing more than research or communication tools. Nothing could be further from the truth.

Recent experience in European countries – France, Germany, Denmark, Norway – has clearly shown that the new leaders in the development of greener economies have developed smart policies (i.e. policy instruments that foster innovation in a flexible environment) that harness incentives to innovate and export their industry-leading technology (e.g. wind turbines; solar photovoltaics). Even if the goal were to become more efficient in traditional Canadian industry, innovative pricing policies can help realize the twin benefits of increasing Canadian productivity all while reducing



energy consumption and associated levels of pollution.<sup>2</sup> Without these policies, market failures and institutional inertia prevent Canadians firms and households from optimizing performance, ultimately hindering Canadian productivity and competitiveness.

Market-based approaches, as key mechanisms for enabling capacity, are enormously under-utilised in the current *Draft Federal Sustainable Development Strategy*. How could the *Draft Federal Sustainable Development Strategy* better harness market-based approaches to achieve Canada's SD objectives, and take into account new opportunities for governments and other stakeholders in the green economy?

One option would be to consider the elaboration of new measures and new programs to encourage environmental pricing reform in each of the Themes, clearly recognising these measures as key mechanisms for enabling capacity to deliver on the targets. For climate change, a clear implementing strategy would set a transparent, accountable carbon pricing policy in place. For water, an innovative implementing strategy would enable more accurate water pricing aimed at conservation and sustainable use of water where shortages and waste treatment concerns threaten. For nature conservation, more emphasis would be given to payment for ecosystem services programs, species and habitat banking initiatives, and the actual use of economic valuation to inform decision-making. By setting concrete targets and activating these implementing strategies, the *Draft Federal Sustainable Development Strategy* could place Canada at the forefront of the green economy.

#### 2.2 Setting Truly SMART Strategies for Implementing Ambitious Targets

Our second general concern involves the appearance of flexibility, duplication and vagueness in many, but not all, of the proposed implementing strategies themselves. If the *Draft Federal* Sustainable Development Strategy truly seeks to provide Canadians with specific, measurable, achievable, relevant and time-bound (SMART) targets, the implementation strategies that are identified to deliver on these targets must also be SMART. In some cases, this is admirably the case. It is clear that a commitment to "Develop renewable fuels regulations to mandate a 5% renewable fuel content in gasoline, and a 2% renewable fuel content in diesel", even if "subject to technical feasibility", can be measured and achieved (Theme 1, 1.1.1.2). But a commitment to simply "promote voluntary water conservation and efficiency in the public sector" (Theme 2, 4.1.1) is vague to the point of being void. There is a need to thoroughly and carefully review all implementing strategies in the *Draft Federal Sustainable Development Strategy*, with a view to ensuring that they contain clear and specific commitments that can be measured, and hence, improved upon. Implementation strategies which simply commit to continue existing activities, without actually clarifying the contribution of that activity towards the target in a measurable and direct way, should be sent back to relevant departments for clarification and specification. In many instances, the policy directions outlined are likely very sound. However, the implementation strategy that is identified, due to the manner in which it is presented, appears to be simply a 'warmed-up' description of something already being done. Not all implementing strategies need be novel. But they should be smart.

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<sup>&</sup>lt;sup>2</sup> See Roger Martin and Alison Kemper, <u>Carbon Pricing, Innovation, and Productivity</u>, Sustainable Prosperity Policy Brief, June 2010. Available at <u>www.sustainableprosperity.ca</u>.



Further, as noted by Dr David Boyd in his Comments to this strategy, the proposed targets and timelines in the draft federal sustainable development strategy could be significantly strengthened. The government has access to the outcomes of rigorous reviews of scientific knowledge and comprehensive assessments of Canadian performance to date. There is also a need to do serious benchmarking against the actions, achievements, and aspirations of other leading nations, and to ensure that current proposed targets are up to standard. For example, the proposed National Environmental Objectives set goals of reducing health-harming air emissions 75% by 2030 (including nitrogen oxides, sulphur dioxide, particulate matter, and mercury). The Government of Canada pledged even more aggressive targets in 2007, including National Emission Caps requiring a 50% reduction in air pollution by 2015. And yet the draft federal sustainable development strategy simply suggests that air quality targets "remain to be established." (See Table 3, appended). There is a need to set more ambitious targets in this Strategy.

#### 2.3 Providing a Forum for Canadian Sustainable Development Debate

Our third general concern involves the institutional support for the implementation of this *Draft* Federal Sustainable Development Strategy. The proposed consolidation of the draft Federal Sustainable Development Strategy with the Expenditure Management System (EMS) and other government systems, and the use of the Canadian Environmental Sustainability Indicators (CESI) is a novel and worthwhile objective. However, as noted in many of the annexes, the role that the federal government can play in any sustainable development strategy is limited, because many of the issues touch on provincial jurisdiction. While the whole-of-government approach is pragmatic, the Federal Sustainable Development Strategy should also be an opportunity to create institutions for the long-term political transition towards sustainable development. Policy coordination on sustainable development would be best served through the establishment or strengthening of an intergovernmental forum for sustainable development. Examples of such intergovernmental conferences include the joint meetings of the Canadian Councils of Resource Ministers & Canadian Council of Ministers of the Environment (CCRM/CCME). While the CCRM/CCME can serve as an important starting point, given the breadth and complexity of issues involved, we would recommend that any intergovernmental conference on sustainable development also engage other key federal and provincial ministers in delivering on this Strategy's targets. The CCSD could also engage include federal and provincial ministers responsible for transport, infrastructure, industry, and Indian affairs. And because so many sustainable development issues will come down to important economic decisions, the offices of first ministers and ministers of finance also need to be involved. To help facilitate policy coordination amongst the many political actors involved, a permanent secretariat should also be established. Such a secretariat could be housed at the Commission of the Environment and Sustainable Development (CESD) in order to draw on the expertise already gathered there.



## 3. Tools for Practical, Measurable Steps Forward: Themes I - IV

#### 3.1 Theme I: Addressing Climate Change and Air Quality

#### 3.1.1 Maintain a Distinction between Climate Change and Air Quality

Climate change and air quality are important issues, but not necessarily linked. By linking the two, the implication is that a climate change policy will only be undertaken to the extent that it contributes to an improvement in local air quality. But as climate change is a global problem, emissions in relatively remote areas where emissions do not lead to air quality issues (because of low populations or relative scarcity of other sources of ambient pollution) are still highly problematic. It is important to highlight those areas where climate change and air quality overlap, but also areas where they are distinct policy areas. The inclusion of elements of the Clean Air Agenda as part of Target 1.1 is deceptive, and essentially, a mislabelling that confuses, and encourages duplications.

#### 3.1.2 Activate Proven Carbon Pricing Instruments:

The *Draft Federal Sustainable Development Strategy* could make clear and sound references to the types of carbon pricing policies economists have long called for and that other jurisdictions have successfully implemented, including Canadian jurisdictions. Carbon pricing instruments, including the Carbon Tax in British Columbia, the cap-and-trade policies being tested and debated in Quebec, British Columbia and Ontario; the feed in tariffs in Ontario, and other initiatives, have come of age. Their conspicuous absence from a Strategy that seeks to reduce greenhouse gas emission levels to mitigate the severity and unavoidable impacts of climate change is unfortunate. It should be possible, with the combined ingenuity of departments engaged in the Strategy, to fully involve all federal government actors in programs to ensure that a sound price is set on carbon.

#### 3.1.3 Implement Sectoral rather than Project-based Offsets

In the government's *Turning the Corner* action plan, the federal government revealed plans for a Canadian offset system. The design of this system resembles in many ways that of the Kyoto Protocol's international carbon offset system, the Clean Development Mechanism (CDM). Experience with the CDM to date suggests that performance on a project-by-project basis is in need of improvement. Reforming the proposed Canadian offset system towards a sectoral approach would reduce information asymmetries involved in the project-by-project approach and allow regulators to scan across an entire economic sector to better evaluate whether an individual offset activity meets a predetermined "additionality" threshold.<sup>3</sup>

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<sup>&</sup>lt;sup>3</sup> Wara, M., & Victor, D. (2008). A Realistic Policy on International Carbon Offsets, PSED Working Paper #74. Stanford: Program on Energy and Sustainable Development, Stanford University; Figueres, C. (2006). Sectoral CDM: opening the CDM to the yet unrealized goal of sustainable development. *International Journal of Sustainable Development Law & Policy* 2, 5-27; Purdon, M. (2010). The Carbon Market and Sustainable Rural Development in Regions of the Declining Old Economy: lessons from the Kyoto Protocol's Clean Development Mechanism for Canada's Offset System. In T. Dunk (Ed.), *Transitions in Marginal Zones in the Age of Globalization: case studies from the North and South* (pp. 187-217). Thunder Bay: Lakehead University.



#### 3.1.4 Clean Energy

Based on SP's understanding of the current portfolio of federal programs and initiatives in this area, the list provided in this section would seem to underplay the nature and scale of these programs. At the same time, SP believes that this particular issue needs to be considered a strategic priority, and given much more prominence in the elaboration of a Federal Sustainable Development Strategy.

Clean Energy should be considered an overarching theme within the context of the FSDS, and some attention given to new measures, initiatives, and targets that the government of Canada should be seeking to achieve on this important issue.

#### 3.1.5 Building on Canadian Best Practices

In addition to working with the United States on the clean energy dialogue, and in addition to the laudable objective of streamlining sustainable development into the federal government's practices, increased federal-provincial coordination is needed on issues such as best practices in building code regulations for higher efficiency buildings (passive energy buildings and the "negawatt" project); fuel emission standards for vehicles; and harmonized energy taxes which currently vary widely from province to province.

#### 3.1.6 Adopting More Ambitious, Sustainable International Positions

Finally, the *Draft Federal Sustainable Development Strategy* tends to signal a commitment to simply "participate" in international negotiations on climate and energy issues. This does not go far enough, and does not resonate with what Canadians generally expect in terms of the federal government's leadership. Being a participant is inconsistent with Canada's usual position on multilateral issues which has traditionally focused on being a constructive player, a leader in environmental issues, and a facilitator of consensus. As noted by David Boyd in other comments to this Strategy, there is a failure to acknowledge the extent to which Canada has fallen behind other nations in terms of both environmental performance and policy, and to commit clearly to regain our place. Canada currently ranks 15th out of 17 large wealthy nations on environmental indicators reported by the Conference Board of Canada; Canada ranks 24th out of 25 OECD nations according to a report published by the David Suzuki Foundation in 2010 (prepared by researchers from Simon Fraser University); and Canada ranks 46th out of 163 nations on the 2010 Environmental Performance Index (calculated by researchers with Yale and Columbia Universities, in collaboration with the World Economic Forum). Surely, in terms of international leadership, this Strategy could commit to do more than 'participate' and 'continue to engage' in important history-making international treaty negotiations related to sustainable development? The blueprint of the world's cooperation on these issues is being designed now, and in key areas, Canadian positions seem to be going backward. This Strategy could help take the first steps to charting a different course, rather than quietly accepting the *status quo*. A real opportunity is being lost.



#### 3.2 Theme II: Maintaining Water Quality and Availability

#### 3.2.1 Assessing Aquifers for Action:

We commend the government for committing to "Complete 15 assessments for Canada's 30 key regional aquifers and produce a national groundwater inventory to help Canadians better understand and manage underground water resources" (Theme 2, at 4.1.1). The work that has been done in Canada to date, for instance, to forecast water supply and conservation needs in the Bow River Basin in Alberta, demonstrate that while river levels are quite easy to track, there are very few solid statistics on the quantity or quality of groundwater in Canadian aquifers. In order to be able to value our groundwater reserves, we need to know how scarce they really are. This implementing strategy could be invaluable for progress.

#### 3.2.2 Scoping and Implementing Effective Water Pricing Instruments for Farmers:

It is, however, disappointing to see no reference to incentive-based programs for the quick implementation of best practices in water management and conservation for farmers. Certain actions that farmers take, such as preserving riparian areas, can yield a significant benefit for ecosystems and downstream users at relatively low costs to farmers. Measurable and carefully implemented payment for ecosystem services programs, which provide incentives to farmers to make use of these best practices, would benefit Canadian society as a whole. A clear, strong, significant implementation strategy to take up these instruments in a more strategic and systematic way could be an important addition to the Strategy.

#### 3.2.3 Scoping and Implementing Effective Water Pricing Instruments for Consumers:

The Municipal Water and Wastewater Survey (MWWS) clearly states that metering customers is an effective tool for conserving water: "volume-based rates provide better incentives for water conservation than flat charges. This was again evident countrywide from the 2004 survey, which shows residential daily water use at 467 litres per capita when water is charged on a flat rate basis and 266 litres per capita under metered or volume-based rates. Since 1991, this difference has been consistent—with consumption 70 to 80% higher nationally under flat rates than under volume-based rates." <sup>4</sup> While water pricing on the municipal level is clearly not a responsibility of the federal government, the Draft Strategy could take up the challenge of setting a clear and measurable commitment to promote more accurate pricing of water as a tool to promote individual water conservation with a caveat to ensure that, for the poor, basic human needs for water will be met. The federal government could also make future federal infrastructure payments contingent on municipalities and/or provinces meeting specific requirements related to water metering and pricing.

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<sup>&</sup>lt;sup>4</sup> http://www.ec.gc.ca/Water-apps/MWWS/en/data/e MUP2008.pdf, pp. 7-8, see http://www.ec.gc.ca/Water-apps/MWWS/en/data/e MUP2008.pdf for full list of publications for MWWS.



#### 3.3 Theme III: Protecting Nature

#### 3.3.1 Meeting Canada's National Reporting Targets for Wildlife Conservation:

In order to effectively advance knowledge and communications for wildlife conservation in Canada (Theme III, 5.1.2), the Strategy might include commitments to fulfill Canada's obligations under Article 26 and Article 10(a) of the Convention on Biological Diversity (CBD) by expanding and updating National Reports on biodiversity. These reports monitor the progress of the goals set in the Canadian Biodiversity Strategy (CBS) and provide information on other measures taken for the implementation of provisions of the Convention, and can be accessed on the Convention's website.

#### 3.3.2 Undertaking Inventories of the Impacts of Subsidies

In order to advance knowledge and communications (Theme III, 6.1.3), the Strategy might include commitments to establish comprehensive and transparent subsidy inventories, assessing their environmental impacts, and using the ecosystem approach. Chapter 6 of "The Economics of Ecosystem Services and Biodiversity: Report for Policymakers" and the OECD make strong arguments for such policy innovations. In a time of fiscal restraint, it should be possible to build on the many best practice and examples of subsidy reform and phase-out policies which have saved funds while also delivering significant benefits to ecosystems and to habitat conservation.

#### 3.3.3 Reforming Harmful Subsidies for Ecosystem/Habitat Conservation

In order to lead by example (Theme III, 6.1.1), the Strategy might include commitments to develop a prioritized plan of action for identifying and either reforming or removing environmentally harmful subsidies to both producers and consumers. This would be in accordance with Article 11 of the Convention on Biological Diversity, which states that parties will "adopt economically and socially sound measures that act as incentives for the conservation and sustainable use of components of biodiversity."



#### 4. Conclusions

In summary, we appreciate the goals and directions laid out in this in this Draft Federal Sustainable Development Strategy, with its overall focus on implementation, and on the identification of practical strategies to achieve overall targets. This focus is admirable.

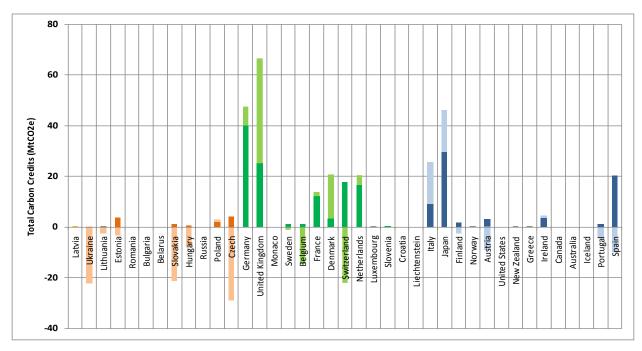
We have three general comments which we hope can contribute to achieving the implementation that is sought. First, we believe the Strategy could do far, far more in terms of enabling capacity for sustainable development in Canada through pricing reform, and market-based instruments. Second, we encourage you to set ambitious targets (even in comparison to previous targets) in these key areas, and to ensure that the means of implementation are truly SMART. Third, we request that the Strategy consider the establishment of new mechanisms to provide a real forum for Canadian sustainable development debates, and engage those who have sent comments to this Strategy in its operations.

Further, in terms of highlighting the tools for practical, measurable steps forward in Themes I, II, III and IV, we have tried to provide useful and specific comments aimed to strengthen and where possible, concretize, this Strategy, as summarized in Table 4 to this paper.

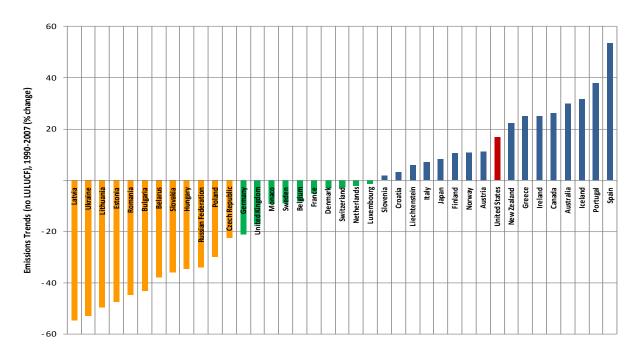
We appreciate the opportunity to participate in this consultation, and hope to work with you to ensure that the Strategy is further developed, and implemented, for the benefit of present and future generations of Canadians.



<u>Figure 1:</u> 2008 Net Acquisitions of CDM Credits (CERs – dark tones) and Allowance Credits (AAUs – light tones)<sup>5</sup>



<u>Figure 2:</u> Emissions Trends (no LULUCF) with No Use of Credits, 1990-2007



<sup>&</sup>lt;sup>5</sup> Orange indicates economies in transition, Green industrialized countries whose domestic emissions have reduce since 1990; Blue industrialized countries whose domestic emissions have risen since 1990



## <u>Table 3:</u> Comparing 2005 National Environmental Objectives and the draft 2010 Federal Sustainable Development Strategy Targets:

#### Climate change

2005 National Environmental Objectives: 50% reduction from 2000 levels by 2030

2010 Draft Federal Strategy (Target 1.1): 17% reduction from 2005 levels by 2020

#### Air quality

2005 National Environmental Objectives: 75% decrease in emissions of nitrogen oxides, sulphur dioxides, volatile organic compounds, and mercury by 2030

2010 Draft Federal Strategy (Target 2.1): Not available ("under development in consultation with provinces and stakeholders")

#### Toxic Chemicals

2005 National Environmental Objectives: Eliminate industrial releases of persistent, bio-accumulative, and toxic substances by 2030

2010 Draft Federal Strategy (Target 2.2): Complete assessments of toxic substances by 2020

#### <u>Water</u>

2005 National Environmental Objectives: All drinking water in Canada meets health-based standards by 2015

2010 Draft Federal Strategy (Target 3.4): Increase % of First Nations with safe drinking water by 2013 (neither existing % nor proposed % increase specified)

#### Waste

2005 National Environmental Objectives: Reduce per capita waste to 500 kg/capita/year by 2020 and 300 kg/capita/year by 2030

2010 Draft Federal Strategy: No waste targets

#### **Biodiversity**

2005 National Environmental Objectives: 50% of species at risk stable or recovering by 2030; 10% of Canadian waters in marine protected areas

2010 Draft Federal Strategy (Targets 5.1, 6.1): wildlife populations maintained or restored to healthy levels by 2015; Designate eight new marine protected areas by 2012

Source: Comments of Dr David Boyd, Adjunct Professor, Simon Fraser University (July 6, 2010)



## Table 4: Summary of SP Comments for Themes I - IV

#### 1 Theme I: Addressing Climate Change and Air Quality

- 1.1 Maintain a Distinction between Climate Change and Air Quality
- 1.2 Activate Proven Carbon Pricing Instruments:
- 1.3 Implement Sectoral rather than Project-based Offsets
- 1.4 Clean Energy
- 1.5 Further Build on Lessons Learned in Canadian and International Best Practices
- 1.6 Adopt More Ambitious, Sustainable International Positions

#### 2 Theme II: Maintaining Water Quality and Availability

- 2.1 Assess Aquifers for Action:
- 2.2 Scope and Implement Effective Water Pricing Instruments for Farmers:
- 2.3 Scope and Implement Effective Water Pricing Instruments for Consumers:

#### 3 Theme III: Protecting Nature

- 3.1 Meet Canada's National Reporting Targets for Wildlife Conservation:
- 3.2 Undertake Inventories of the Impacts of Subsidies
- 3.3 Reform Harmful Subsidies for Ecosystem/Habitat Conservation