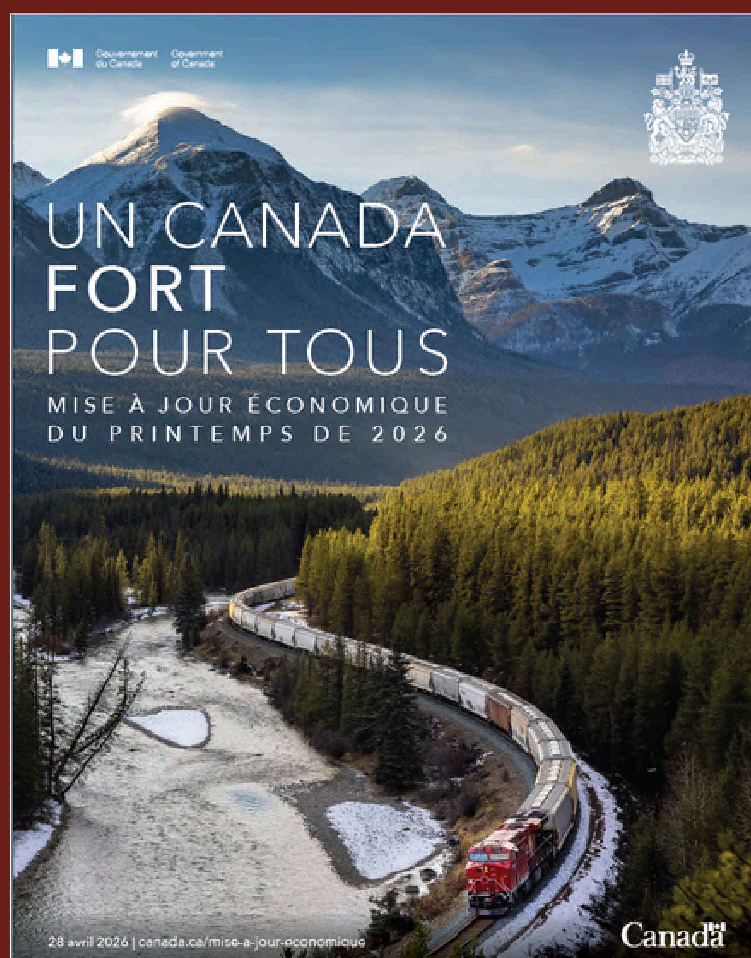
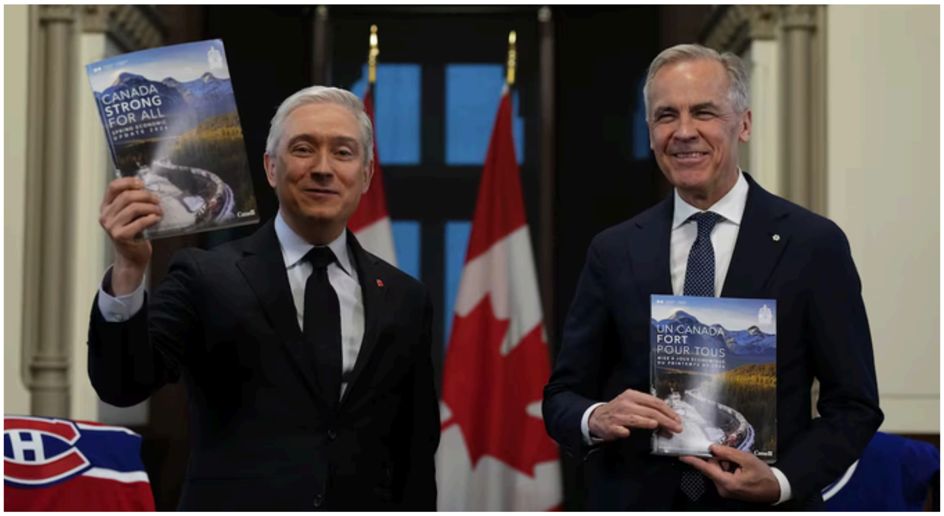
SENATORS FOR CLIMATE SOLUTIONS

SÉNATEURS POUR DES SOLUTIONS CLIMATIQUES

Spring Economic Update 2026

A Climate Lens





OVERVIEW

The Spring Economic Update 2026: Canada Strong for All, tabled by François-Philippe Champagne on April 28, 2026, outlines the federal government's evolving approach to climate policy within a broader economic framework.

The Update reports the 2025-26 deficit is now projected to be $66.9 billion which is a $11.5 billion reduction from Budget 2025. This is primarily attributed to a more resilient economy and improved terms of trade driven by higher global crude oil prices, which are expected to average US$15 more per barrel this year than previously forecasted. Furthermore, expanded export capacity is providing a critical buffer; the LNG Canada Phase 1 project, which began exports in June 2025, has successfully ramped up to represent 7.5% of total natural gas exports, helping to stabilize government revenues despite ongoing trade tensions.

This briefing note provides an overview of the key climate-relevant measures introduced in the update. It examines how the government is positioning climate action as a driver of economic growth referred to as "climate competitiveness" while advancing investments in clean energy, carbon capture, sustainable finance, and biodiversity protection.

As the global economy transitions toward low-carbon pathways, Canada's policy direction reflects an effort to balance economic opportunity with environmental stewardship. This includes strengthening international climate finance commitments, supporting clean technology deployment, and protecting natural ecosystems.

At the same time, the briefing note assesses critical gaps and trade-offs within the update, including the absence of new regulatory measures and the implications for Canada's emissions targets and long-term climate goals.

SUPPORTING INTERNATIONAL CLIMATE FINANCE

Climate change is a global issue requiring coordinated international action. International climate finance plays a critical role in enabling developing and vulnerable countries to lower emissions, adapt to climate impacts, and strengthen long-term economic resilience.

The Spring Economic Update 2026 proposes approximately $3.17 billion in direct, climate-specific funding over five years to support programming in developing countries, including:

- $3.0 billion to Global Affairs Canada for international climate finance initiatives; and
- $167.9 million to Environment and Climate Change Canada to support international climate-related programming

In addition, the government is providing $2.73 billion to FinDev Canada, Canada's development finance instituion, including:

- $2.0 billion in paid-in capital; and
- $732 million to expand its concessional finance facility

While FinDev Canada supports climate-related investments, this funding is not exclusively dedicated to climate and will also support broader development objectives. Its primary role is to mobilize private sector investment, including in climate-related projects.

Overall, these measures reflect a shift toward leveraging public funds to attract private capital, with a target of more than $3 in private investment for every $1 in public funding.

Combined with existing contributions through multilateral development banks, Export Development Canada, and other financing tools, Canada aims to deliver over $13 billion in total climate-related support to developing countries over the next five years. This figure includes both direct public funding and mobilized private and institutional finance, and should not be interpreted as entirely new or fully climate-dedicated federal spending.

Expanding the Carbon Capture Tax Credit to Enhanced Oil Recovery

The federal CCUS Investment Tax Credit currently supports investments in carbon capture technologies. Eligibility depends on the final use of the captured CO_2 at present, only dedicated geological storage and storage in concrete qualify, while Enhanced Oil Recovery (EOR) is excluded.

The Spring Economic Update 2026 proposes to make EOR an eligible use under the CCUS Investment Tax Credit.

Credit rates for EOR projects will be set at:
– 30% for direct air capture equipment
– 25% for other capture equipment
– 18.75% for transportation, storage, and use equipment

These rates are intentionally lower than the rates for "pure" geological storage (which reach up to 50%–60%). This tiering accounts for the fact that EOR projects generate a private revenue stream from increased oil production. By providing a smaller tax credit for EOR, the government ensures the public subsidy is adjusted for the project's inherent commercial profitability. Even with these incentives, projects must ensure the captured CO_2 is permanently stored.

This measure is projected to increase federal revenues by $395 million over four years, beginning in 2027-28. This occurs because the government is shifting certain carbon capture activities into this lower-tier credit structure. By paying out a smaller subsidy (lower credit rate) for EOR-related projects compared to what it pays for pure storage, the government reduces its overall tax expenditure, which results in a net increase in federal revenue.

The government sees it as a pragmatic step to encourage investment in carbon management technologies within the oil and gas industry.

Protecting Canada’s Whales

New federal investments and regulations to support the recovery of endangered whale populations and their critical habitats.

Canada is home to over 30 whale species that play a vital role in ocean health and hold deep cultural significance for Indigenous and coastal communities. Since 2018, major investments have been made through the Whales Initiative and Oceans Protection Plan, and federal investments hope to continue supporting marine conservation, habitat restoration, and the protection of endangered species.

Key Investments :

- $160.8 million over 5 years (starting 2026-27) to Fisheries and Oceans Canada and Transport Canada for whale protection across all coasts.

- Additional $91.3 million over 5 years to implement a regional noise monitoring and management program on the West Coast and protect the Southern Resident Killer Whale.

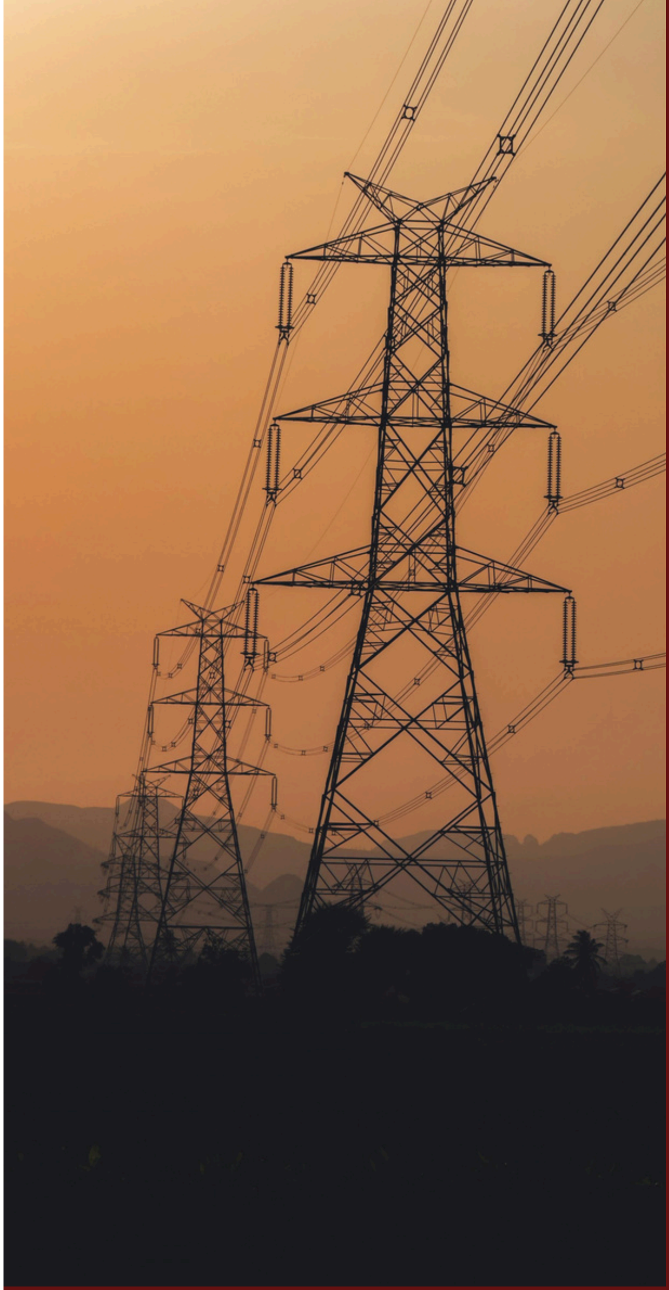
HOSTING A SUSTAINABLE FINANCE CONFERENCE

The Canadian Climate Institute, in collaboration with Business Future Pathways, is leading the creation of credible "green" and "transition" investment guidelines with input from diverse stakeholders, including Indigenous communities.

There is support for the Canadian Climate Institute to host a Sustainable Finance Conference in the coming year. The event will bring together domestic and international experts to advance the **Canadian taxonomy** and highlight green sustainable investment opportunities. The taxonomy, still under development, is critical infrastructure for directing private capital toward genuinely climate-aligned projects.

The conference will help build investor confidence, reduce greenwashing, and direct capital toward priority sectors in Canada's clean economy transition.

A STRONGER GRID FOR A STRONGER CANADA



Canada's electricity system will need to expand significantly to meet rising demand and support economy-wide electrification. Electricity currently represents approximately 20% of final energy use and is expected to grow substantially in the coming decades.

Key Initiatives

Electricity Grid : Forthcoming Discussion Paper

The Government of Canada will release a discussion paper (timeline not specified) to seek input from provinces, territories, Indigenous partners, and stakeholders on how to connect, modernize, and expand Canada's electricity grid. This will be an early-stage consultation document, not a finalized policy or funding commitment.

Nuclear Energy Strategy : In Development

The federal government will develop and release a Nuclear Energy Strategy (timeline not specified) to provide a coordinated national approach to the future of Canada's nuclear sector. The strategy is expected to be led by the federal government (e.g., energy and natural resources portfolio) and will outline how nuclear energy can support reliable, non-emitting baseload power and economic growth.

It's important to note that at this stage, no specific measures, funding, or implementation details have been released.

However, if implemented, these initiatives could enhance grid reliability, support decarbonization, drive innovation, and strengthen Canada's competitiveness in an increasingly electrified economy.

WHERE CANADA STANDS AND WHAT THE SPRING ECONOMIC UPDATE DOES

Canada is currently on track for only ~21% emissions reductions below 2005 levels by 2030 - against a Paris Agreement target of 40%. PM Carney has publicly acknowledged the 2030 target will not be met. The Spring Economic Update 2026 does not introduce new industrial carbon pricing measures or oil and gas sector emissions regulations. While the federal industrial carbon pricing system remains in place, the Update does not clarify whether existing policies will be strengthened or expanded.

The Spring Economic Update frames climate action as “climate competitiveness,” positioning clean economy investments as economic drivers rather than regulatory obligations. This suggests a shift in emphasis away from carbon pricing as the primary policy tool toward industrial strategy and market incentives, though existing carbon pricing frameworks are not explicitly addressed. The key question is whether this approach can deliver equivalent or greater emissions reductions in the absence of strengthened regulatory measures.

Key Measure Auto Strategy & Electric Vehicle Commitments

Canada's Auto Strategy (announced February 5, 2026 and reaffirmed in the Spring Economic Update) is the centrepiece clean-economy measure. It replaces the previous Electric Vehicle Availability Standard with new GHG emissions standards, giving manufacturers more technology flexibility while driving fleet decarbonisation over time.

75% EV sales target by 2035

90% EV sales target by 2040

840,000+ New EVs to be incentivised

Summary Highlights

Green and Transition Bonds

In February 2026, Canada issued a $2 billion, 10-year green bond supported by strong demand from socially responsible investors. The government plans regular issuances and is developing a Sustainable Bond Framework to enable green and transition bond offerings aligned with the new made-in-Canada sustainable investment taxonomy.

EV Charging Network — $1.5B (Doubled)

The Canada Infrastructure Bank's Charging and Hydrogen Refueling Infrastructure Initiative is expanded to $1.5 billion — approximately double its previous allocation — alongside a forthcoming national charging infrastructure strategy. Range anxiety and inadequate charging remain top barriers to adoption; this investment directly targets both.

Clean Technology & EV Manufacturing Credits

Key tax measures are maintained and expanded: the Clean Technology Manufacturing Investment Tax Credit, the proposed EV Supply Chain Investment Tax Credit, tax incentives for critical mineral mining, and reduced corporate tax rates for zero-emission technology manufacturers. The Productivity Super-Deduction provides accelerated capital cost allowances for manufacturers investing in Canada.

Canada Strong Fund — First National Sovereign Wealth Fund

Canada's first sovereign wealth fund will invest in "key, strategic Canadian projects and companies," with Canadians able to participate directly via a retail investment product. The Fund's mandate is broad; its climate implications depend entirely on whether binding ESG criteria or fossil fuel exclusions are built into its governance — details not yet specified in the SEU. Parliamentary oversight mechanisms also remain to be determined.

Summary Highlights

Fuel Excise Tax Pause Until Labour Day

The SEU pauses the federal fuel excise tax until Labour Day, saving up to 10 cents/L on gasoline and 4 cents/L on diesel. While framed as affordability relief, this temporarily weakens the price signal that discourages fossil fuel consumption and incentivises EV adoption in direct tension with the Auto Strategy.

Modular & Factory-Built Housing

Investments in new construction technologies and streamlined building codes will promote modular and factory-built housing. While primarily an affordability measure, these housing forms are more resource-efficient, generate less construction waste, and when paired with higher density, can meaningfully reduce urban sprawl and long-term emissions from the built environment.

Battery Supply Chain & Critical Minerals Investment

The SEU reinforces investment in critical minerals ,from mining to processing to commercialisation, as a foundation for domestic EV battery manufacturing. This includes the Critical Mineral Exploration Tax Credit, the First and Last Mile Fund, and the $2 billion Critical Minerals Investment Fund. Canada's mineral endowment positions it as a strategic player in global battery supply chains essential to the clean energy transition.

Nuclear, Indigenous Renewables & National Electricity Strategy

The Finance Minister's budget speech highlighted the Darlington New Nuclear Project in Ontario and an Inuit-owned renewable energy project in Iqaluit, ending that community's reliance on diesel, as emblematic of Canada's clean energy direction. A national electricity strategy is also in development, working with provinces and territories to ensure clean, affordable, reliable power underpins EV adoption and clean manufacturing.

Climate Wins & Gaps

Climate Wins

- 75% EV sales target by 2035 in new GHG standards
- $1.5B EV charging infrastructure (doubled)
- EV Affordability Program , up to $5,000 per vehicle
- Clean Technology & EV Supply Chain tax credits maintained
- Critical minerals investment for battery supply chains
- Sustainable Finance Conference advances taxonomy work
- Darlington New Nuclear reaffirmed
- Arctic renewable energy :Iqaluit off diesel
- National electricity strategy in development
- Canada Strong Fund, potential investment resource for clean energy projects
- Team Canada trades power green infrastructure

Climate Gaps

- No strengthening of existing industrial carbon pricing
- No new emissions regulations for oil/gas
- No clear plan to close the gap, Canada's 2030 emissions target (40%)
- Fuel excise tax pause undermines fossil fuel price signal
- No methane regulations timeline provided
- Canada Strong Fund, no ESG or climate screens specified
- Sustainable Finance Taxonomy, no legislative timeline
- National electricity strategy, still in development, no targets
- Major Projects Office, no emissions compatibility screen

Some Reactions to the Spring Economic Update

“The new Team Canada Strong program is set to recruit, train, and hire 80,000 to 100,000 new Red Seal skilled trades workers by the end of the decade. It will set our workforce up well for a clean economy that will increasingly need these jobs: clean energy job growth ranges from 5% to 10% annually in every province as the world transitions to a net-zero 2050... "***- Rachel Doran, Executive Director at Clean Energy Canada***

CLEAN ENERGY CANADA

"By scaling ‘bankable’ green projects and implementing clear regulatory standards, Canada can transform significant climate risks into strategic economic opportunities."***- Olaf Weber, ISF Research Fellow (Institute for Sustainable Finance)***

Institute for Sustainable Finance

“The federal government’s support for a sustainable investment taxonomy and sustainable finance conference are important contributions to ensuring Canada succeeds in attracting new investment for green and transition projects” - ***Rick Smith, President of the Canadian Climate Institute***

CANADIAN CLIMATE INSTITUTE | L’INSTITUT CLIMATIQUE DU CANADA

“The Economic Update continues the approach we saw last year with Bill C-5 and the One Canadian Economy Act, where First Nations are an afterthought in the government’s path to building the Canadian economy. There is no Canada Strong without strong First Nations. Unless we grow in true partnership, Canada’s economy will get weaker. ***- Cindy Woodhouse Nepinak, AFN National Chief***

Assembly of First Nations

CAN Rac CLIMATE ACTION NETWORK | RÉSEAU ACTION CLIMAT Canada

“Not everything in the Spring Economic Update is good news for the climate, though: the tax incentives for enhanced oil recovery and LNG feel like a big miss for the moment we are in. And amid increasing rumours of the federal government investing public dollars in a pipeline, we’re highly concerned that the new sovereign wealth fund will be yet another thinly veiled handout to the oil and gas industry” ***- Caroline Brouillette, Executive Director of Climate Action Network Canada***

“The Spring Economic Update signals that Canada is moving in the right direction. Building the infrastructure, workforce, investment environment, and regulatory certainty will be critical to unlocking the full potential of marine renewable energy” ***- Elisa Obermann, Executive Director of Marine Renewables Canada***

marine renewables canada

Some Reactions to the Spring Economic Update

"Today's economic update does little to show that the government is taking the digital economy seriously or using it to strengthen Canada's major traditional economic strategies....While resources and infrastructure are deeply important to Canada's economy, Canadian entrepreneurs are unfortunately choosing to leave Canada and launch their businesses in growing numbers." ***- Patrick Searle, Council of Canadian Innovators CEO***

COUNCIL OF CANADIAN INNOVATORS CCI CONSEIL CANADIEN DES INNOVATEURS

"Canada's renewed commitment to climate finance marks a welcome return to global cooperation on climate action" - ***Patricia Fuller, President and CEO International institute for Sustainable Development***

IISD International Institute for Sustainable Development

"After delivering the worst climate budget since the Harper era, the federal government followed it up with two new fossil fuel subsidies ... On a more positive note, the economic update included $500 million in net new international climate finance, in addition to previously announced funding for electric vehicles incentives and nature conservation. These are positive steps, but they do not outweigh the climate cuts from last fall's budget" - ***Hadrian Mertins-Kirkwood, senior researcher at the Canadian Centre for Policy Alternatives***

CCPA CANADIAN CENTRE for POLICY ALTERNATIVES CENTRE CANADIEN de POLITIQUES ALTERNATIVES

"With national security and affordability top of mind for Canadians, we should be working to decouple our economy from volatile, inflationary oil and gas markets – not further entrench it" ***– Pembina Institute***

PEMBINA institute

"Canada has a moral, legal and economic duty to stop financing fossil fuel expansion...The new Canada Growth Fund will need clear guardrails to align with Canada's commitments to end fossil fuel subsidies and financing. A healthy environment, healthy people and resilient communities — that's true wealth." - ***Lisa Gue, David Suzuki Foundation national policy manager***

DAVID SUZUKI FOUNDATION One nature.