SENATORS FOR CLIMATE SOLUTIONS
SÉNATEURS POUR DES SOLUTIONS CLIMATIQUES

Budget 2023 – Briefing Note

Overview of Climate Highlights

The budget was tabled on March 28, 2023 and can be viewed here. Minister Freeland's speech can be found here. Budget 2023 includes a wide range of policies; this briefing note focuses on climate and other related environmental announcements.


Image: BBC

Budget 2023 focuses on using public finance to attract private investment in growing a clean economy in Canada. It does not attempt to phase-down oil and gas production, but does aim to use **market-based tools** to build up Canada's clean economy.

These industries include critical minerals, clean electricity, clean hydrogen and the manufacturing of clean technologies like batteries and electric vehicles. In her Budget speech, Deputy Prime Minister and Minister of Finance, Chrystia Freeland, spoke about how our allies are moving quickly to "**friendshore**" - to relocate supply chains out of authoritarian regimes and towards democratic countries. The goal of Budget 2023 is to capitalize on Canada's competitive advantages to secure our place in global clean economy supply chains.

Canada's Plan for a Clean Economy

Carbon pricing - which creates economy-wide incentives to reduce emissions - is the foundation of the Federal government's plan to grow a clean economy. The second layer of the plan is **$26.2 billion in Investment Tax Credits - $16.9 billion of which are new in Budget 2023** - to attract private capital to 5 areas: Clean Electricity, Clean Hydrogen, Clean Technology Manufacturing, Clean Technology Adoption and Carbon Capture Utilization & Storage. These Investment Tax Credits are designed to boost overall investment in the clean economy.

The next layer of the plan is low-cost strategic finance for specific major low-carbon projects. The $15 billion Canada Growth Fund is to further encourage private investment by absorbing certain risks, and the $35 billion Canada Infrastructure Bank is the government's primary financing tool for supporting clean electricity projects. The money for both institutions was allocated in previous years; Budget 2023 provides further implementation details.

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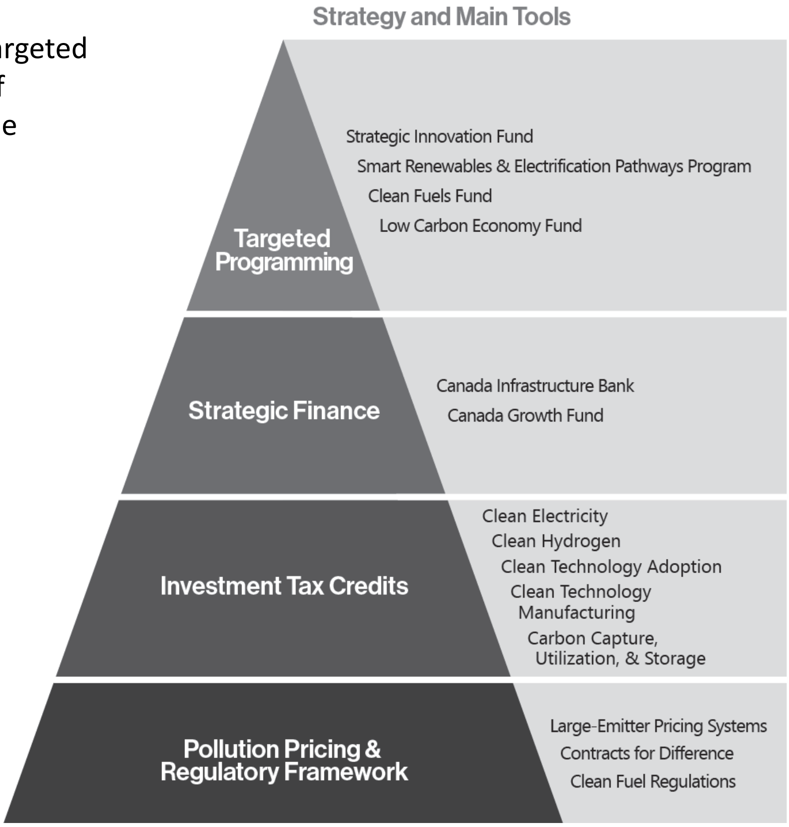
Canada's Plan for a Clean Economy (continued)

The final layer of the plan is targeted programming for the unique needs of certain sectors or projects, such as the previously announced Strategic Innovation Fund, Clean Fuels Fund and Low Carbon Economy Fund.

International Context:
In August 2022, the USA signed the *Inflation Reduction Act* which provided $369 billion in tax incentives, loans and grants for energy and climate change.



Left: Diagram from Budget 2023 illustrating the layers that build on each other in Canada's Plan for a Clean Economy

Clean Electricity

- $6.3 billion over 4 years in **Clean Electricity Investment Tax Credits** for up to 15% of eligible investments in non-emitting electricity generation systems, including nuclear and abated natural gas-fired electricity generation; stationary electricity storage systems; and interprovincial electricity transmission. The Department of Finance will engage with provinces and territories and require commitments to achieve a net-zero electricity sector by 2035 and lower electricity bills in order to receive funding.

- Budget 2023 directs the **Canada Infrastructure Bank** to allocate $10 billion towards its **Clean Power** priority area and $10 billion towards its **Green Infrastructure** priority Area, each of which had previously been allocated $5 billion. This deepens the Canada Infrastructure Bank's role investing in private sector-led infrastructure projects to electrify Canada's economy, including the Atlantic Loop.

- Budget 2023 announces $3 billion over 13 years to Natural Resources Canada for targeted clean electricity programs, including critical regional priorities and Indigenous-led projects.

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Volkswagen will build its first North American Gigafactory for battery cell manufacturing in St Thomas, Ontario. Production is to begin in 2027. Image: Volkswagen's battery plant in Salzgitter, Germany

Investment Tax Credits

Unlike America's strategy with the Inflation Reduction Act, Budget 2023 does not use Production Tax Credits, which pay producers an amount of money for each unit produced during a project's operation. Instead, the Investment Tax Credits outlined in Budget 2023 cover a certain percentage of the **upfront costs** of new projects to encourage the shift to a profitable, clean economy. All of Budget 2023's Investment Tax Credits (ITCs) for the clean economy are **refundable**, so they not only reduce the amount of tax that companies pay, but any excess tax credit amount results in a tax refund from the government.

All of the ITCs for the clean economy - except for the ITC for Clean Technology Manufacturing - require companies to meet certain **labour conditions** in order to receive the full amount offered. These conditions include worker compensation that equates to the prevailing wage and a certain amount of training opportunities for registered apprentices.

- $4.5 billion over 5 years in **Clean Technology Manufacturing Investment Tax Credits** for up to 30% of investments in new machinery and equipment used to manufacture or process key clean technologies (such as batteries, zero-emission vehicles, and renewable or nuclear energy equipment) and to extract, process or recycle key critical minerals (such as lithium, cobalt, nickel, graphite, copper, and rare earth elements).
    - With the Clean Technology Manufacturing ITC and last year's $3.8 billion **Critical Minerals Strategy,** the government is trying to position Canada as a leader for battery and electric vehicle manufacturing, and the entire value chain of critical minerals.

Investment Tax Credits (continued)

- Budget 2023 highlights that many careers in clean technology manufacturing do not require a university degree, and that average worker compensation in 2021 for this sector was $90,252 - well above Canada's economy-wide average of $69,311.

- Budget 2023 also extends the Reduced Tax Rates for Zero-Emission Technology Manufacturers that were introduced in Budget 2021 to continue until 2034.

- $5.6 billion over 5 years in **Clean Hydrogen Investment Tax Credits** for up to 15-40% of investments in clean hydrogen, with more provided for cleaner hydrogen made using renewable electricity, and less for hydrogen with higher emissions, such as by using natural gas with carbon capture and storage. Hydrogen may play an important role both as an export and for decarbonizing industrial processes that require heat and therefore cannot be electrified.

- Budget 2023 directs an additional $520 million on top of the $2.6 billion from Budget 2022 for the **Carbon Capture, Utilization, and Storage Investment Tax Credit** for up to 60% of investments. These technologies remove carbon from the atmosphere to store it either underground or in concrete. Enhanced Oil Recovery - a process which captures carbon in order to increase oil production - is not eligible for the ITC.

- Budget 2023 slightly expands the **Clean Technology Investment Tax Credit** to include geothermal energy. Announced in the 2022 Fall Economic Statement, the Clean Technology ITC will cost $6.7 billion over 5 years to cover up to 30% of investment by businesses that adopt clean technology, such as solar panels, low-carbon heating, or industrial zero-emission vehicles.

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The Canada Growth Fund

Budget 2023 provides further detail for the **$15 billion Canada Growth Fund**, first announced in the 2022 Fall Economic Statement. The Canada Growth Fund is an arm's length public investment vehicle that will use various instruments to absorb risk, attracting private capital to build Canada's clean economy. The Public Sector Pension Investment Board will manage the Canada Growth Fund, separately from its other assets.

Among other tools, the Canada Growth Fund (CGF) will be able to use**, "contracts for difference,"** which reduce the risk of policy shifts and allow investment in companies which depend on a certain policy environment to be economically viable. One type of contract-for-difference lets the CGF guarantee a certain carbon price for individual emissions-reducing companies. If the government does not increase the carbon price as scheduled, the CGF would pay the company the difference, ensuring that the emissions-reducing company be economically viable, regardless of policy shifts. If the carbon price does increase as scheduled, that contract-for-difference would cost the CGF nothing.[1]

Other Highlights

- By the end of 2023, the government will release a concrete plan to improve the efficiency of the **Impact Assessment Process**, including updating federal guidelines on consulting with Indigenous peoples. The 2022 Fall Economic Statement included $1.3 billion over 6 years to improve this issue.


Whale Sanctuary in Nova Scotia, image: CBC

- Budget 2023 announced $151 million to protect endangered whales, $368 million to update forest sector support, and $184 million for species-at-risk. The government has previously committed $1.6 billion for Canada's National Adaptation Strategy, $3.6 billion to protect nature and species-at-risk, and $3.5 billion for the **Oceans Protection Plan**.

[1] For more information on Contracts for Difference - including other types - this article by the Canadian Climate Institute is clear and concise: https://climateinstitute.ca/what-are-contracts-for-difference/

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Other Highlights (continued)

- $85 million is allocated to establish the new **Canada Water Agency** in Winnipeg, with $650 million over 10 years for monitoring, assessing and restoring Canada's freshwater bodies.

- $40 million for the **NATO Climate Change and Security Centre of Excellence** in Montreal, to analyze new climate change-driven security challenges.

- $19.4 million to increase the **participation of Indigenous Peoples in environmental and regulatory assessments of major projects**; $30 million to develop the capacity of First Nations to exercise increased responsibility over their lands, resources and environments; and $35 million for a First Nations-led National Land Registry for increased economic benefits from local control over their lands.

- The Canada Infrastructure Bank will provide **loans to Indigenous communities** to purchase equity stakes in infrastructure projects in which the Bank is also investing.

- Given the increased frequency of natural disasters due to climate change, $48 million for Public Safety Canada to identify high-risk flood areas and **modernize the Disaster Financial Assistance Arrangements** program to incentivize mitigation efforts. $32 million to establish a low-cost flood insurance program for uninsured households.

Insured Damage from the 2022 Hurricane Fiona is estimated at over $800 million. image: CTV News

- $27 million to create a new **Transportation Supply Chain** office to improve Canada's supply chain infrastructure; $165 million to establish a Green Shipping Corridor program to reduce the impact of marine shipping on surrounding communities and ecosystem; $25 million to increase data on the transportation supply chain. Other announced measures include requiring shippers to share more data; temporarily extending interswitching limits in the prairies to strengthen rail competition; and reviewing the Shipping Conferences Exemption Act to improve marine shipping competition.

Reactions to Budget 2023 (continued)

Canadian Climate Institute said that "Budget 2023 is a strong gameplan to keep Canada competitive," and a "shrewd response to the U.S. Inflation Reduction Act." Canadian Climate Institute lauded the inclusion of carbon contracts for difference and the investment tax credit for clean electricity, especially because of the requirements for provincial commitments on affordable electricity bills and net-zero electricity by 2035.

Smart Prosperity Institute highlighted that the effectiveness of these market-based measures will be determined by industry's willingness to invest, though if industry does not invest, the government will not have to spend money on the credits either. **Clean Prosperity** supported the shift to market-based measures and says it is "critical that the government follow through with its budget commitment to consult on a broad-program of contracts for difference," beyond those offered by the Canada Growth Fund.

Canadian Centre for Policy Alternatives criticized Budget 2023's market-based approach to climate action saying that "while $80 billion is serious money that will help drive the transition to a lower-carbon economy, the federal government is handing the keys for climate action to the private sector. At a moment when bold public leadership is necessary, the federal government is taking the back seat." The **Broadbent Institute** criticized the Canada Infrastructure Bank and Canada Growth Fund's goal of attracting private capital as more likely to attract companies interested in "corporate welfare" than fostering homegrown Canadian innovation.

Climate Action Network (CAN-Rac), Greenpeace Canada, the David Suzuki Foundation, Équiterre and a wide range of other environmental groups summarized Budget 2023 as phasing in the good but failing to phase out the bad. They applauded the investments in clean electricity and the labour condition requirements attached to the investment tax credits but criticized that fossil fuel subsidies are not being phased out.

These groups - and others, including the **International Institute for Sustainable Development (IISD)** - assert that the support for Carbon Capture and Storage, fossil fuel-derived hydrogen, and abated natural gas-fired electricity are just continued financial support for oil and gas which detract from proven renewable energy solutions.

Reactions to Budget 2023

The **International Institute for Sustainable Development** said that this was "historic progress" on clean electricity and freshwater, but that Canada needs "robust regulations, including the oil and gas emissions cap and Clean Electricity Regulation." **Environmental Defense Fund (EDF)** criticized the absence of action on methane emissions, a significant greenhouse gas which their research indicates is being emitted at much higher rates than reported.

World Wildlife Fund, Environmental Defence and **Ducks Unlimited** lauded the new Canada Water Agency, and the funding for monitoring, restoring and protecting freshwater ecosystems, including the Great Lakes. **The Atmospheric Fund** criticized the reallocation of funding away from energy efficiency retrofits towards new construction, and Environmental Defence was disappointed by the absence of support for public transportation.

Ecology Action Centre was pleased to see funding for clean energy but were concerned that the Investment Tax Credit for Clean Technology Manufacturing did not mention the United Nations Declaration on the Rights of Indigenous Peoples' principle of free, prior and informed consent, which may lead to a continuation of extractivist colonialist practices. The Ecology Action Centre also supported the requirement for provinces to provide a plan for lowering energy bills and achieve a net-zero energy grid by 2035 in order to access funding, but were disappointed by the lack of support for low-income Canadians during the energy transition.

The **Business Council of Canada** responded positively to the clean economy investment tax credits as a response to the US *Inflation Reduction Act,* but highlighted that unless the regulatory framework is sufficiently predictable and de-politicized, businesses will not have the confidence to invest in the clean economy. The Business Council of Canada approved of the government's commitment to outline a concrete plan to improve the efficiency of the impact assessment by the end of 2023, but assert that it needs to be done more urgently. They also criticized the lack of support for research and development.

Canadian Manufacturers and Exporters was pleased with the Budget and stated that the promised support for transitioning Canadian manufacturing production to a net-zero future will strengthen the manufacturing sector.

Reactions to Budget 2023 (continued)

The **Cement Association of Canada** and the **Canadian Steel Producers Association** applauded the various investment tax credits and were pleased about the increased policy certainty that will be provided by carbon contracts for difference from the Canada Growth Fund.

Pathways Alliance (which represents six companies who collectively operate 95% of Canada's oil sands production) were encouraged that the Budget increases the policy certainty necessary to invest in Carbon Capture, Utilization and Storage, and look forward to further implementation details on the Canada Growth Fund and on carbon contracts for difference. Pathways Alliance said that for them to meet the government's emissions reduction goals, "there needs to be sufficient co-investment from federal and provincial governments, along with industry" and that "We need to continue to work together constructively to ensure Canada has the right policy levers in place to incent investment in clean technologies like CCUS."

The **Mining Association of Canada** was pleased with the Clean Electricity and Clean Technology Manufacturing Tax Credits, and said they are "optimistic that with these new measures Canada will be able to attract new private sector investment into Canada's mining, smelting and refining industry, creating well-paid jobs for Indigenous and non-Indigenous Canadians across the country." The **Canadian Labour Congress** lauded the labour conditions attached to the investment tax credits.

Inuit Circumpolar Council Canada stated the Budget "reflects [their] key pre-budget recommendations," and drew attention to funding for clean ports, emissions reductions, climate change adaptations, elimination of plastic waste, and mammal conservation in the North.

The Assembly of First Nations stated that the Budget fails to advance economic reconciliation, and said that consultation, without action, on the government's pledge to consult Indigenous partners on a framework to give communities more revenue from resource projects on their territories is simply "more spinning of the Liberal government's wheels."