

Spending What it Takes: 2024 Update

MARCH 2024



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Introduction

Signatories to the Paris Agreement, including Canada, have committed to limiting global warming to 1.5 degrees Celsius above pre-industrial levels.

Hitting that mid-century target will help the world avoid the most destructive and costly impacts of climate change.¹ To do so, the world must halve emissions within the next decade and ultimately achieve net-zero greenhouse gas emissions by 2050.² We cannot shy away from the transformational investments necessary to achieve decarbonization and ensure Canada's long-term prosperity.

This policy brief serves as an update to our February 2023 report, *Spending What it Takes: Transformational climate investments for long-term prosperity in Canada*, co-published by the Canadian Centre for Policy Alternatives and Climate Action Network – Réseau action climat (CAN-Rac) Canada.³ The original report found that the government of Canada was spending about \$10 billion per year (equivalent to roughly 0.5 per cent of GDP) on climate action, which fell well short of the 2 per cent of GDP that experts believe is necessary to achieve decarbonization.⁴ To that end, the report outlined an ambitious \$287 billion spending plan to accelerate Canada's transition to a zero-carbon economy.

In this update, we review new federal climate spending announced in the past year and compare it to the recommendations laid out in *Spending What it Takes*. We also briefly discuss some important contextual issues, such as the household affordability crisis, that present both obstacles and opportunities for climate action in 2024.

Finally, we shine the spotlight on a handful of specific climate programs that could be prioritized in the forthcoming federal budget. Our recommendations for an expanded national heat pump program, a youth climate corps and an extension of the windfall profits tax to oil and gas companies would all serve to reduce greenhouse gas emissions while addressing affordability concerns across the country.



1 Intergovernmental Panel on Climate Change, *Global Warming of 1.5 °C: An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty*, October 2018.

2 Intergovernmental Panel on Climate Change, *Climate Change 2022: Mitigation of Climate Change*, April 2022.

3 Marc Lee, Caroline Brouillette & Hadrian Mertins-Kirkwood, *Spending What It Takes: Transformational Climate Investments for Long-Term Prosperity in Canada*, Canadian Centre for Policy Alternatives & Climate Action Network - Réseau action climat (CAN-Rac) Canada, February 2023.

4 Swathi Nair, "Climate inaction costlier than net zero transition: Reuters poll," *Reuters*, October 25, 2021.

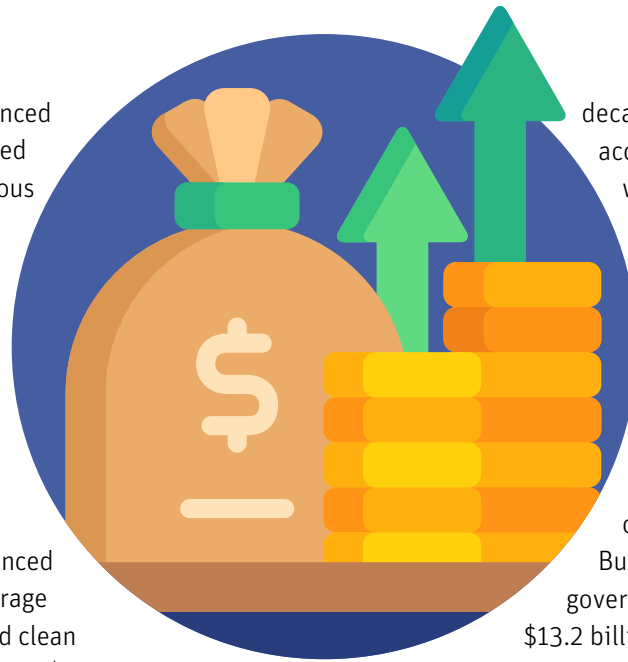
Updated analysis of federal climate spending



The 2023 federal budget announced \$63 billion in new climate-related spending—more than any previous federal budget by a substantial margin.⁵ The majority of that money was set aside for investment tax credits (ITCs) for clean electricity (\$25.7 billion), clean hydrogen (\$17.7 billion) and clean technology manufacturing (\$11 billion). The budget also expanded the previously-announced ITCs for carbon capture and storage (an additional \$520 million) and clean technology adoption (an additional \$185 million). Altogether these tax credits are expected to cost the federal government more than \$70 billion in foregone revenues over the next decade.

Outside of the ITCs, the 2023 budget allocated \$3 billion in direct funding for clean electricity projects, \$1.6 billion to fund the previously-announced National Adaptation Strategy and \$1.3 billion for reduced tax rates for clean tech manufacturers. Smaller programs of note included \$250 million for oil-to-heat-pump grants and \$210 million for VIA Rail maintenance and service.

The 2023 fall economic statement (FES) expanded eligibility for the investment tax credits to waste biomass projects at an additional cost of \$2 billion over the next



decade.⁶ The FES also accounted for \$8.5 billion worth of subsidies that will be doled out over the next five years to battery manufacturers and other clean tech projects. The FES does not itemize those projects, but according to the Office of the Parliamentary Budget Officer the federal government has committed \$13.2 billion and \$15 billion, respectively, to battery manufacturing facilities owned by Stellantis-LGES and Volkswagen through 2032.⁷

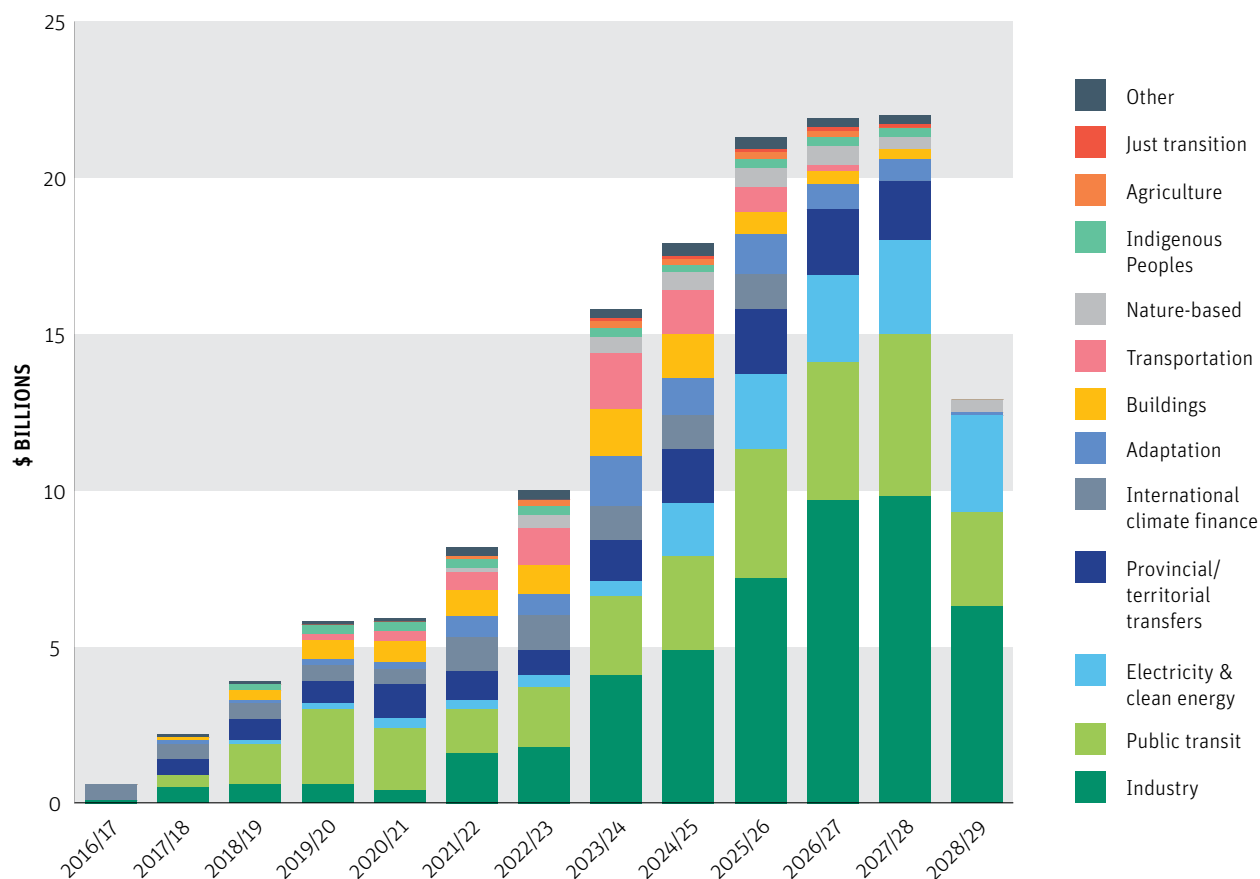
Taken together, the new climate spending announced by the federal government in 2023 pushes up our summary estimates by a significant margin. The federal government is slated to spend \$15.7 billion on climate action in 2023/24 rising to \$22 billion in 2027/28 (see Figure 1). That is an increase from \$14.2 billion and \$13.5 billion, respectively, in last year's analysis. As a share of GDP, we expect federal government climate spending to tick up from 0.5 per cent today to 0.7 per cent over the next five years.

5 Department of Finance, *Budget 2023 – A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future*, Government of Canada, March 2023.

6 Department of Finance, *2023 Fall Economic Statement*, Government of Canada, November 2023.

7 Jill Giswold, *Break-even Analysis of Production Subsidies for Stellantis-LGES and Volkswagen*, Office of the Parliamentary Budget Officer, September 2023.

FIGURE 1: PLANNED FEDERAL CLIMATE SPENDING BY CATEGORY, 2016/17 TO 2028/29



Source: Authors' calculations based on federal budget documents and fiscal updates, 2016 to 2023.

Planned spending drops off significantly in 2028/29, but that is to be expected given the 5-year time horizon of many budget items. To maintain its current rate of climate spending, the federal government would need to announce new climate spending in the 2024 budget of around \$3 billion for 2028/29. Putting Canada on a path to the 2 per cent of GDP target—the level of spending that is widely considered necessary to fully decarbonize the economy and compete in the global energy transition—would require significantly higher spending. To reach 2 per cent, we estimate the federal government would need to spend in the neighbourhood of an additional \$10 billion per year in new climate expenditures in each of the next five budgets (i.e., for a total increase in spending of about \$50 billion per year by 2028/29).

In our original analysis, we also distinguished between genuine climate spending and “fossil-friendly” climate

spending. The latter category includes items like the tax credit for carbon capture and storage, which is a direct subsidy to the oil and gas industry designed to perpetuate fossil fuel production. Fossil-friendly spending has increased to about \$2 billion per year moving forward, which accounts for about 10 per cent of all planned federal climate spending. We still include fossil-friendly spending in our totals because it will nominally contribute to emissions reductions, but a strong case can be made for excluding these expenditures. Even if we manage to reduce emissions from fossil fuel production domestically, we are still contributing to the global climate problem by exporting those emissions elsewhere.⁸

8 Marc Lee, *Extracted Carbon: Re-Examining Canada's Contribution to Climate Change through Fossil Fuel Exports*, Canadian Centre for Policy Alternatives & Corporate Mapping Project, January 2017.

Progress on climate spending recommendations

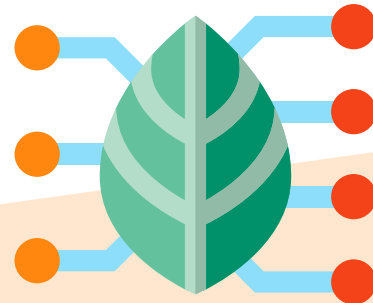


Spending What it Takes included roughly two dozen recommendations for the federal government. None of those recommendations were fully realized in 2023, but the government came closest on clean electricity. At a glance, the new \$25.7 billion clean electricity tax credit plus \$3 billion in direct funding for electricity projects compare favourably to the \$20 billion investment we recommended.

However, our recommendation of \$20 billion over five years is roughly double the government's allocation of \$28.7 billion over 11-13 years. Moreover, the federal government approach leans heavily on commercial subsidies and private sector leadership. Our recommended approach leans in the other direction, toward more direct public investment and coordination. Leaving the future of Canada's electricity grid—the backbone of a decarbonized economy—to the market is an enormously risky bet.

The various new tax credits, incentives and subsidies for the clean tech sector that were announced in 2023 are superficially in line with our recommendations for economic diversification. Once again, however, the federal sums on offer (in the neighbourhood of \$5-10 billion per year) fall short of what we argue is necessary (closer to \$15 billion per year). Moreover, with the exception of the direct subsidies for battery manufacturers, little of the government's spending in this area is geographically targeted. Without stricter conditions, it appears likely that the vast majority of these subsidies will flow into corporate headquarters in places like Calgary and Toronto (or to the headquarters of foreign multinationals) rather than the communities in transition that need the investment most.

Where our other priority areas were addressed at all, the sums allocated by the government are not in the same ballpark as our recommendations. A \$210 million top-up for VIA Rail, for example, is a far cry from the \$40 billion public investment necessary to build out improved public transit



\$5-10B

vs.

\$15B

The federal tax credits, incentives and subsidies for the clean tech sector on offer vs. what we argue is necessary.

(per year, announced in 2023)

and passenger rail infrastructure in Canada's major transit corridors.

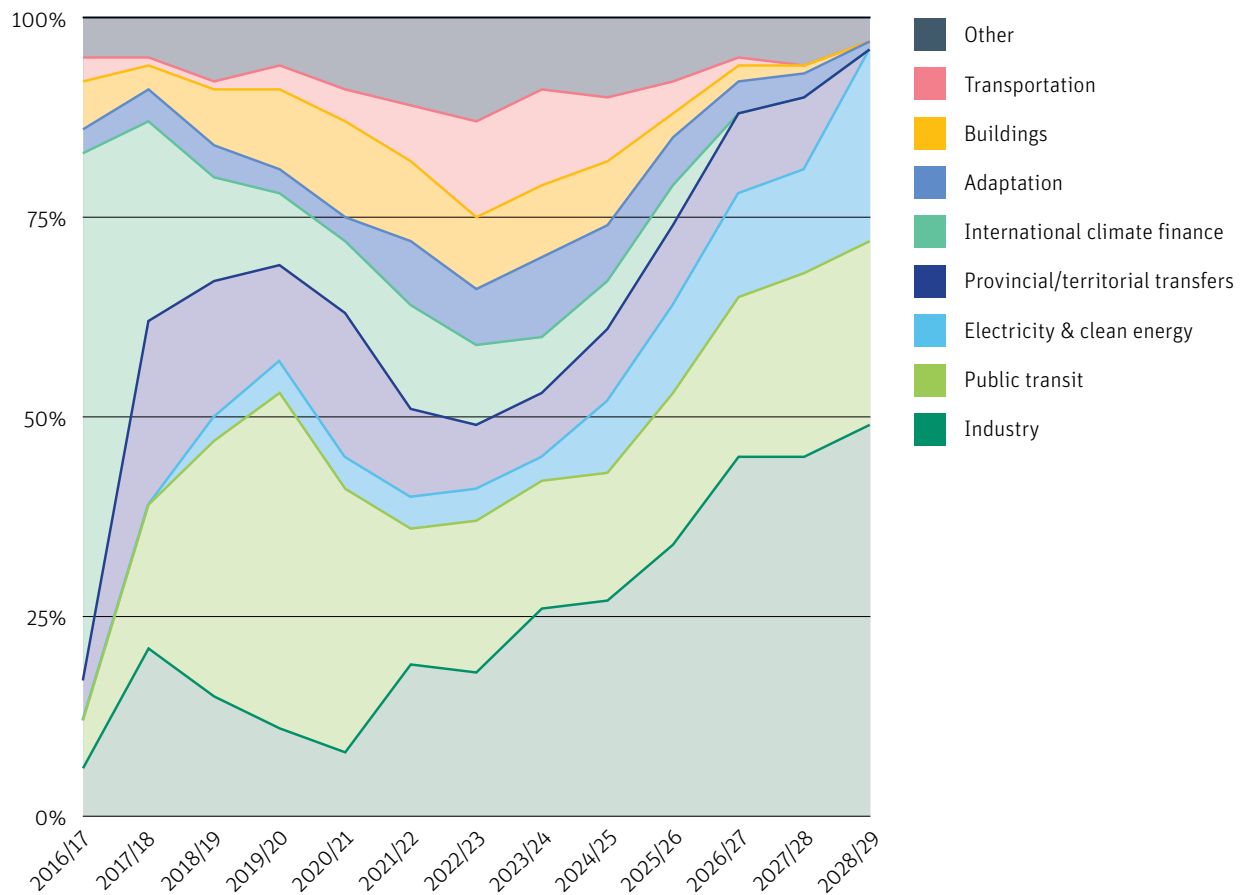
As we look ahead to the 2024 federal budget, nearly all of our recommendations from early 2023 remain relevant. In addition to the items mentioned above, we are still waiting for new and renewed support for Indigenous-led climate solutions (\$25 billion), home and building energy efficiency (\$66.5 billion), sustainable

agriculture (\$4 billion), climate adaptation (\$25 billion), international climate finance (\$5.3 billion) and nature restoration and conservation (\$21 billion).

The forecast for international climate finance is particularly concerning. Whereas Canada’s support for climate action in developing countries once made up a sizable portion of overall climate spending, that share is slated to drop to zero over the next few years (see Figure 2). Budget 2023 cut total international assistance spending by 15 per cent—breaking

the government’s earlier promise to increase development spending every year through 2030—so the downward trend is not limited to climate finance.⁹ However, increasing Canada’s climate finance budget is especially important in 2024 in light of ongoing global negotiations toward a new collective quantified goal (NCQG) for climate finance, which will be finalized at COP29.

FIGURE 2: SHARE OF PLANNED FEDERAL CLIMATE SPENDING BY CATEGORY, 2016/17 TO 2028/29



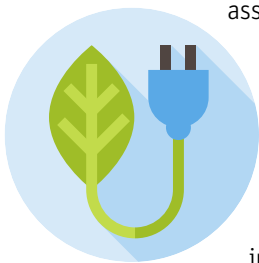
Source: Authors’ calculations based on federal budget documents and fiscal updates, 2016 to 2023.

9 Donor Tracker, “Donor Profile: Canada,” last updated May 31, 2023.

Key considerations in 2024

Even as the world faces potentially record-breaking heating in 2024, climate action has fallen to the wayside in Canada’s political discourse. While public concern over the climate crisis remains high, immediate affordability and housing worries have pushed to the top of the priority list.¹⁰ Moreover, certain climate policies, such as the federal carbon pricing system and prospective Sustainable Jobs Act, have become favoured targets of some opposition parties and provincial governments. With a federal election looming in 2025, the government is under serious pressure from fossil-friendly interests to backtrack on its climate agenda, let alone expand it.¹¹

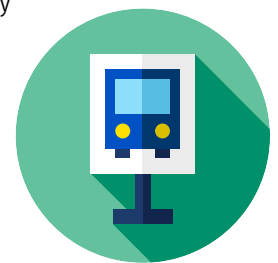
The silver lining in these political storm clouds is that many policies to reduce greenhouse gas emissions can also help to alleviate household affordability pressures. Climate action alone will not solve skyrocketing food, transportation and shelter costs, but improving energy efficiency and lessening our dependence on volatile fossil fuels can address household energy costs now and into the future. Renewable energy is already cheaper than fossil fuels in many contexts. Households and communities that shift more of their energy use to electricity will reap the cost savings for years to come, not to mention the health and quality of life benefits associated with reduced fossil fuel use.



The biggest obstacles facing many households—and low-income households in particular—are the upfront costs of adopting more energy efficient, cost-saving technologies, such as heat pumps, and an inability to access lower-carbon infrastructure, such as affordable and reliable public transit. These

obstacles turn climate action and affordability measures into an either-or proposition for households when they should be win-win options. As the Affordability Action Council recently concluded, “Canada needs policies that simultaneously help us reduce greenhouse gas emissions and ease the cost-of-living burden for lower-income families.”¹²

Strong public policies in this area will not only help those households participate in a lower-carbon economy. Providing highly visible, cost-saving support to households also has the potential to win more political support for climate action than behind-the-scenes regulatory policies (as essential as they may be).



Finally, it should be noted that failing to reduce emissions will be extremely costly on its own. Already, the Canadian economy is spending \$720 per person per year to deal with the physical and health impacts of climate change.¹³ That figure is slated to triple in the coming decades and to balloon thereafter in the absence of effective global climate action. While households are understandably focused on short-term affordability, policy makers cannot lose sight of affordability over the long term, which is inextricably tied to ambitious climate action.

10 Ipsos, “[Six in Ten \(59%, +3 pts\) Canadians Agree That if Canada’s Government Does Not Act Now to Combat Climate Change, It Will Be Failing the People of Canada.](#)” September 1, 2023; see also: Leger, [Extreme Weather Events: Survey of Canadians.](#) September 11, 2023.

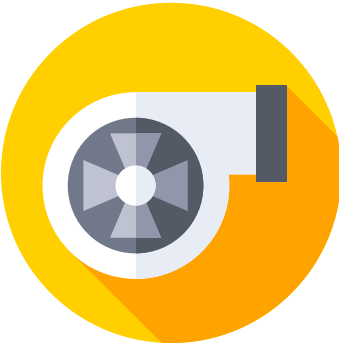
11 David Coletto, “[Understanding Canadian Perceptions of the Climate Action Incentive Payment and the Carbon Tax: An In-Depth Poll Analysis.](#)” Abacus Data, January 30, 2024.

12 Affordability Action Council, [Making Ends Meet: A New Approach to Tackling Affordability.](#) Institute for Research on Public Policy, February 2024.

13 Canadian Climate Institute, [Damage Control: Reducing the costs of climate impacts in Canada.](#) September 2022.

Recommendations for Budget 2024

In conjunction with the high-level, sector-by-sector climate investments described in *Spending What it Takes*, which remain just as relevant and necessary in 2024, we make three specific and tangible policy recommendations to the federal government for the upcoming budget. These policies are intended to tackle the convergence of crises facing the country while generating clear political and material benefits.



Expand the heat pump affordability program

Electric heat pumps are a crucial technology for reducing greenhouse emissions from homes and

buildings that otherwise rely on fossil fuels for heating. Heat pumps have the added benefits of providing air conditioning and air filtration, which are potentially life-saving features during Canada’s increasingly frequent periods of extreme summer heat and wildfire smoke. Once installed, they are also inexpensive to operate, which saves households money on their energy bills over the long term.

The federal Oil to Heat Pump Affordability Program removes the up-front cost of heat pump installation for some households in some parts of the country, but the scale of the program is inadequate. Like many federal retrofitting programs, it is also mired in bureaucratic complexity that discourages eligible households from accessing the program.¹⁴

We recommend the federal government significantly expand the existing heat pump affordability program to cover conversions of all outdated and fossil fuel-based heating systems to heat pumps, including natural gas, propane and inefficient electric systems. We recommend the program establish a streamlined process for prioritizing low-income households, older buildings and multi-unit residential buildings, all of which are poorly served by existing retrofit programs and would benefit the most from heat pump replacements.

In addition to heat pumps, the federal government should support other high-impact energy efficiency retrofits, such as improved insulation and windows. We share the target recommended by Efficiency Canada of retrofitting 170,000 homes over the next four years through an expanded national retrofit program. Such a program would require a budget of at least \$2.5 billion.¹⁵ More generally, we support all of the recommendations of the Affordability Action Council for addressing affordability and climate change in the areas of housing, food security and transportation.

14 Affordability Action Council, *Making Ends Meet*.

15 Abhi Kantamneni & Brendan Haley, *Climate and Affordability in Budget 2024*, Efficiency Canada & Carleton University, January 2024.



Establish a youth climate corps

The transition to a cleaner economy will require a lot more workers than are currently available in the Canadian

workforce. Employers and governments alike are wringing their hands over growing labour and skill shortages in many key sectors and occupations.¹⁶ Meanwhile, young people across the country are keen to contribute to climate solutions even as they struggle with the rising cost of living. In its prospective Sustainable Jobs Act, the federal government commits to “the creation of decent work, meaning good-paying, high-quality jobs,” which is a significant opportunity to bridge those concerns.¹⁷ However, the government has to date offered little in the way of direct job creation.

A youth climate corps is a federal training and employment program that would create well-paying green jobs for people under the age of 35. The program could be designed in a variety of ways, but most importantly it would guarantee gainful employment for young people in fields that contribute to climate change mitigation or adaptation in Canada. These subsidized jobs would be limited to one or two year terms, during which time workers would gain

the skills and experience necessary to secure longer-term employment. A similar program, the American Climate Corps, was recently launched by the U.S. federal government and could be used as a model.¹⁸

Polling commissioned by the Climate Emergency Unit, which has championed the idea in Canada, found that a strong majority of young people support the idea of a youth climate corps in principle and 15 per cent would be keen to enroll.¹⁹ That amounts to a potential pool of 1.3 million young workers across the country.

The cost of such a program would depend on demand and the specifics of its design.

We recommend kickstarting the program with an initial allocation of \$1 billion per year, as recommended by the Climate Emergency Unit, with room to expand as demand rises.²⁰



15%

In a poll commissioned by the Climate Emergency Unit, 15 per cent of Canadian young people would be keen to enroll in a youth climate corps.¹⁹



16 Naomi Powell & Ben Richardson, *Powering Up: Preparing Canada's skilled trades for a post-pandemic economy*, RBC Thought Leadership, September 2021.

17 Bill C-50, *An Act respecting accountability, transparency and engagement to support the creation of sustainable jobs for workers and economic growth in a net-zero economy*, 1st sess., 44th Parl., 2023.

18 Kate Yoder & Grist, “The American Climate Corps Wants You,” *Scientific American*, September 28, 2023.

19 Seth Klein, “Poll results show a youth climate corps would be a political winner, and a path to a real mobilization,” Climate Emergency Unit, November 16, 2023.

20 The Climate Emergency Unit’s internal costing analysis, which we have reviewed, was not publicly available at the time of writing. For reporting on the \$1 billion figure, see: What on Earth?, “These young Canadians are banging down the government’s door asking for climate jobs,” CBC, June 1, 2023.



\$4.2B

Revenues projected if the windfall profits tax were extended to the fossil fuel industry.²³

(over the next five years)

Extend the windfall profits tax to the fossil fuel industry

The 2022 federal budget introduced a one-time tax of 15 per cent on profits of above \$1 billion for banks and insurance companies. It was a breakthrough for progressive tax policy, but its scope was unduly limited. Oil and gas companies are consistently the most profitable corporations in Canada, having paid out more than \$200 billion in profits to shareholders over the past two decades.²¹ In 2022 alone the sector pocketed \$63 billion in net revenues as Russia’s invasion of Ukraine drove up oil prices.²² According to the Office of the Parliamentary Budget Officer, if the windfall tax on financial institutions were extended to the fossil fuel industry it would generate \$4.2 billion in new government revenues over the next five years.²³

Taxing the profits of oil and gas companies serves several purposes. First, it disincentivizes further inward investment in Canada’s most polluting sector. Second, in conjunction with regulatory measures like the carbon pricing system and forthcoming oil and gas emissions cap, it pressures

oil companies to reinvest their profits into emissions reductions—or to lower prices charged to consumers—rather than paying them out as dividends. Third, it raises government revenues that can be used for additional climate action.

The PBO’s \$4.2 billion estimate would not be quite enough to cover the two programs proposed above. However, there is no reason a windfall profits tax on oil and gas companies should be limited to 15 per cent. In the UK, for example, oil and gas companies face a levy on profits of as much as 35 per cent, which raised £2.6 billion (CAD 4.4 billion) in its first year alone.²⁴ Taxing at a comparable rate in Canada would be appropriate given the sector’s disproportionate profitability and historical responsibility for climate change.

21 DT Cochrane & Katrina Miller, *Taxes and the path to a green economy*, Canadians for Tax Fairness, October 2023.

22 Statistics Canada, “[Oil and gas extraction, 2022](#),” *The Daily*, September 27, 2023.

23 Matt Dong, [Applying the Canada Recovery Dividend to Fossil Fuel Companies](#), Office of the Parliamentary Budget Officer, October 2023.

24 BBC, “[What is the windfall tax on oil and gas companies and how much do they pay?](#),” September 29, 2023.