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Institute

Owning the climate podium: 10 ways Canada can accelerate investment in decarbonization

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In early February, the RBC Climate Action Institute launched our inaugural assessment of Canadian climate progress, and convened more than 100 business leaders, investors, public policy thinkers and community leaders to discuss and debate our findings—and propose ideas for what Canada can do to accelerate action. It was a standing-room only crowd, with a clear buzz that indicated climate ideas are more in demand than ever.

Our report, Double or Trouble, shows how Canada needs to increase investment flows for climate action from $22 billion in 2023 to roughly $60 billion a year for the rest of the decade, to get on a path to Net Zero. The discussion, led by Mark Carney, the United Nations' special envoy for climate action and finance, and RBC CEO Dave McKay, mapped out a range of ideas.

Here is some of what we took away:

1. Governments need to step back, a little

Subsidies aren't sustainable, and yet they effectively account for most climate action, from heat pump purchases to industrial carbon capture. Our report shows 80% of climate spending over the past decade has been funded by Ottawa. Some of that is in response to the U.S. Inflation Reduction Act, which is a massive subsidy scheme that others, including Canada, have tried to match. According to the International Monetary Fund, if every country matched the U.S. subsidies, total government debt globally would rise 40-50% over the next 20 years.

Climate action call: Ottawa should widen its climate focus to develop market-minded trade policies, including border carbon adjustment mechanisms, with a dual mandate to attract investment and cut emissions.

2. Follow the emissions

The oilpatch presents the biggest opportunity for emissions cuts and has the balance sheet and cash flow to help finance large-scale decarbonization efforts. Other heavy emitters, including steel, aluminium, cement and shipping, are also ripe for emissions cuts, and have the capital and supply chains to move quickly. Focusing on heavy emitters in the 2020s will position us in the 2030s to go after other challenges, including electricity supply and consumer technologies.

Climate action call: Develop a program modelled on the Industrial Transition Accelerator, a global initiative launched at COP28 to bring together companies, investors and governments, to build major cleantech projects.

3. Blended finance is critical

Cleantech needs capital, and our financial market structure is not aligned with the risk, return and time horizon required for climate investments available today. It also can't come from one source. Several Canadian entrepreneurs shared their frustrations with access to capital and have turned to foreign markets for their early investment needs. One challenge is a lack of large venture capital pools (and VC savvy) for unproven technologies. Another frustration expressed was with banks and pensions funds, which have the capital but are seen as risk averse. Part of the challenge lies in regulatory constraints on bank capital, and it was suggested the federal government, through the Office of the Superintendent of Financial Institutions, could play a more constructive role in loosening restrictions. Canada's pension funds, which have allocated a large portion of their capital overseas to diversify their risk exposure and to increase returns, could be another potential source of capital—but not at the expense of their fiduciary duty.

Climate action call: Bring together diverse bundles of capital through the Canada Growth Fund to accelerate made-in-Canada technologies, especially around strategic priorities and marquee projects.

4. Lean into emerging markets

Working with multilateral development agencies like the World Bank, we can renew our relevance in the Global South through climate action. Many of the technologies needed in fast-growing (and fast industrializing) markets are made in Canada, from carbon capture and utilization to battery storage and satellite monitoring. Since most of the world's new emissions over the next 25 years will come from emerging markets, the opportunity is clear—as is the benefit to global emissions.

Climate action call: Advance a cleantech trade strategy, led by the Export Development Corp., to double exports by 2030.

5. Canada needs a faster gear

A robust regulatory environment is essential if Canada wants to accelerate private sector action. That includes quickly developing investment tax credits and scaling the $15-billion Canada Growth Fund, and the Carbon Contracts for Difference program (which essentially serves as a guarantee against changes to the carbon price). Further regulations, on electricity and oil and gas emissions, are also moving slowly. It's time to fast-track policies to capture new green dollars. Business needs more certainty around regulations to invest more in decarbonization. Too many Canadian regulations, including the environmental Impact Assessment Act, live under a cloud of political and constitutional uncertainty. While regulations can be good for business, investors need to know they will maintain their integrity, even through revisions, for the lifecycle of their commitments.

Climate action call: Establish a climate unit in the Finance Department to accelerate fiscal measures, and launch a Canadian version of Britain's Climate Change Committee to independently track policy progress against clear emissions requirements.

6. Industrial carbon pricing is the new norm

The consumer carbon tax may not survive the next election, but many climate analysts are not fussed. It has impacted only a small portion of emissions, and its role in changing consumer behaviour is further muted by all those rebate cheques. Many businesses and policymakers are looking ahead to the opportunity to build out an industrial carbon pricing system, perhaps through a national cap-and-trade program. Alberta and Ontario, the two biggest industrial emitters, will be key.

Climate action call: Explore a national industrial emissions trading system that incentivizes companies to profit from reducing their environmental footprint.

7. Taxonomy: Made-in-Canada solution required to unlock capital

If there was one word that stood above all others at the forum, it was taxonomy. An abstract word, it has real economy potential as a labelling system for green and transition finance. If Canada is to attract the tens of billions of dollars needed to advance decarbonization, financial institutions will need to tell those looking to raise capital what their standards are when describing a project, or investment, as green or transition. Such labelling systems are in place in Europe, and several emerging markets. A framework for a Canadian transition taxonomy, developed by about 30 leading banks, insurance companies and pension funds, is sitting with the federal finance minister.

Climate action call: : Advance the federal taxonomy outline to standardize green investment labelling that serves as a benchmark for financial institutions.

8. Carbon markets can leverage private capital

They're growing rapidly in Europe and the United States, but carbon markets remain nascent in Canada. That needs to change if we're to mobilize tens of billions of dollars in capital for operators to reward them for cutting emissions. A prime example: Canadian farmers who adopt better soil management practices to capture and retain carbon, but are paid only for what they produce, not what they preserve. In the U.S., food companies and investors can reward farmers much more easily, as they can with other emitters who invest in cutting emissions. As a result, U.S. carbon markets are estimated to be a US$200-billion-a-year opportunity.

Climate action call: Bring together leading companies in the food supply chain, institutional investors and provincial regulators to establish a monitoring, reporting and verification (MRV) framework that lays the ground for a thriving carbon market.

9. Methane can be our moonshot

Some of the biggest oil and gas companies representing 40% of emissions, including Saudi Aramco, ExxonMobil and Chevron, have signed on to a pledge to eliminate methane emissions by 2030. Canada is already a leader in methane regulations and part of a global methane movement to lower emissions. We can cover 25% of the emission cuts we're committed to by 20230 if we scale the technologies already in the field. The federal government estimates that $15 billion will be needed for methane abatement, making it one of the most cost-effective investments for emissions cuts.

Climate action call: Develop a methane monitoring atlas for Canada's oil and gas sector led by the industry, through investments in startups and deployment of satellite, aerial and on-the-ground sensor technologies.

10. Climate literacy for consumers is needed

Three-quarters of consumers need more support and education on climate, according to RBC-Ipsos research. This is where advancing climate literacy and key policies play a meaningful role. Politicians are afraid of the consumer, said one attendee. But they shouldn't be. The biggest drivers of climate action are policies that catalyze transformation. Remove friction from the consumers' path to help them make climate-friendly decisions, including limiting fossil fuel choices in the marketplace to direct their spending toward greener options.

Climate action call: Leverage a variety of digital channels—including creative awareness campaigns on social media and gamified online resources and courses—to engage the Canadian public on the climate actions available to them and the trade-offs inherent to a transition.

Canada won't get to the climate podium if governments and industry continue working at a distance, or worse, in isolation. We need more collaborative models for planning, resource allocation and execution of the industrial strategy. One example that was discussed was the Climate Smart Buildings Alliance—an organization founded by Mattamy Homes, EllisDon and RBC—to develop demonstration projects for low-carbon buildings and communities.

As one speaker put it: "Today's not the time for competition. It's time for collaboration." This approach is about more than feel-good patriotism—it can advance new procurement and supply chain models, new financing approaches and more risk-taking. As was demonstrated at COP28, global middle powers such as Brazil and India are exerting their might and influence to jostle for the ultimate prize (green dollars plus technical expertise). Canada can't settle for bronze.

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Recommended Reading

Climate Action 2024:
An annual progress report on Canada's Net Zero journey

Timber Rising:
How wood can spur Canada's green building drive

Davos 2024:
A year of creative destruction, or just destruction?