

FISCAL INCENTIVES FOR CANADA'S CLEAN ECONOMY: HIGHLIGHTS FROM THE 2023 FEDERAL BUDGET

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On Tuesday, March 28, 2023, Finance Minister Chrystia Freeland delivered the Federal Government's Budget titled, "A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future." Much of the projected new spending was aimed at fostering the development of Canada's clean economy. This directly responds to the significant incentives for investment in clean energy in the U.S. through President Biden's 2022 Inflation Reduction Act. It is projected that \$1.2 billion this year and approximately \$20 billion over five years will be spent to help Canada compete in the clean energy sector.

CLEAN ENERGY INCENTIVES

Boosting Canada's naturally endowed clean energy supply was highlighted as a strategic imperative for both domestic energy resilience and foreign policy objectives, with countries around the world adjusting their supply chains to remove energy reliance on non-allied states.

Domestically, clean electricity is a critical platform in achieving Canada's net-zero carbon emissions aspirations. Reducing fossil fuel dependencies and emissions in transport, heating will require future increased utilization of clean electricity. It is projected electricity usage to more than double by 2050, giving urgency to set up the infrastructure for reliable, clean energy production now. (Figure 1)

Three tax measures introduced in the 2023 Budget foster investment in clean energy production:

- **New Clean Hydrogen Investment Tax Credit:** Rebates will be available for the installation of production equipment for electrolysis (green hydrogen) or natural gas with carbon capture (blue

hydrogen). Rebates range from 15-40% depending on total life cycle carbon intensity, with higher rebates for lower carbon-intensive fuel production. The 15% tier is also available for ammonia production equipment used specifically for hydrogen fuel transportation. The tax credit is expected to cost \$5.6 billion over five years.

- **New Clean Electricity Investment Tax Credit:** A rebate of 15% will be available for eligible investments in a variety of non-carbon dioxide-emitting electricity generation and transmission activities. These include wind, solar, hydro and nuclear, abated natural gas-fired electricity generation, stationary electricity storage that does not use fossil fuels, and equipment for the transmission of electricity between provinces and territories. The tax credit is expected to cost \$6.3 billion over four years.
- **Adding Geothermal Energy:** This energy class is now eligible for the existing 30% clean technology investment credit program. This is expected to add \$185 million in costs to the existing program.

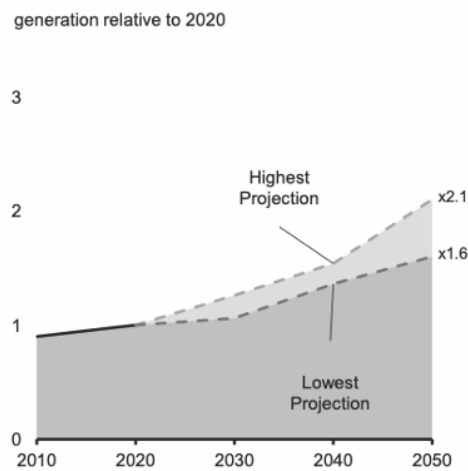
CLEAN MANUFACTURING INCENTIVES

In addition to energy production, initiatives are aimed at fostering the commercialization of existing technologies to manufacture the systems needed for net-zero aspirations:

- **New Clean Technology Manufacturing Investment Tax Credit:** This program is a 30% tax credit on equipment such as renewable energy equipment (solar, wind, hydro, geothermal) property and activities related to a wide range of manufacturing processes related to critical mineral extraction and other foundational components for the

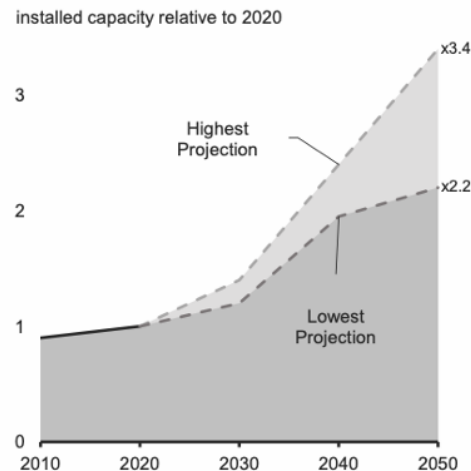
Figure 1

Projected Electricity Generation Requirements in Canada, 2019-2050



Source: Canadian Climate Institute (2022), Bigger, Cleaner, Smarter: Pathways for Aligning Canadian Electricity Systems with Net Zero

Projected Electricity Capacity Requirements in Canada, 2019-2050



Source: Canadian Climate Institute (2022), Bigger, Cleaner, Smarter: Pathways for Aligning Canadian Electricity Systems with Net Zero

clean economy), nuclear fuels and heavy water, electricity storage and heat pumps, manufacturing of batteries and fuel cells, manufacturing of zero-emission vehicles, and extraction of lithium, cobalt, nickel, graphite, copper, and rare earth elements. The program is expected to cost \$4.5 billion over five years.

- **Expanding Carbon Capture, Utilization, and Storage (CCUS) Investment Tax Credit:**

The previous initiative was expanded to include geological storage in British Columbia (previously only Saskatchewan and Alberta were in scope), storage in concrete, and prorata treatment of equipment used partially in the CCUS process. This is expected to cost \$520 million over five years.

- **Adding Nuclear equipment manufacturers:**

Production of nuclear energy equipment has been added to the existing zero-emission technology manufacturers reduced tax program. It halves the income tax for those activities. This expansion is expected to cost the existing program an additional \$20 million.

CLEAN TECHNOLOGIES RESEARCH INCENTIVES

The budget proposes to provide an additional \$500 million over ten years to the Strategic Innovation Fund (SIF) to support the development and application of clean technologies. SIF provides major investments in innovative projects that will help grow Canada's economy. SIF will also direct up to \$1.5 billion of its existing resources towards projects in clean technologies, critical minerals, and industrial decarbonization.

Additionally, it was announced that the existing Scientific Research and Experimental Development tax incentive program will be reviewed to ensure it is providing adequate support and improving the development, retention, and commercialization of intellectual property.

ATTRACTING PRIVATE CAPITAL FOR CANADA'S CLEAN ECONOMY

It was announced that the Public Sector Pension Investment Board (PSP Investments) will manage the arm's length public investment vehicle created in 2022 called the Canada Growth Fund (CGF). The CGF is an investment funding tool, capitalized up to \$15 billion, to attract

private capital required to accelerate the deployment of technologies required to decarbonize and grow the economy. PSP Investments management will allow the fund to make timely, independent investment decisions, which is crucial to the market credibility and willingness of private investors to support the work of the CGF. They also will provide the necessary transparency and governance structures to manage the fund.

LABOUR PROTECTIONS AND FAIR DISTRIBUTION OF BENEFITS

These large stimulus measures are expected to yield efficiency gains with the advancement of technologies and work practices as corporations gain experience in the new clean economy. Most of the fiscal policies have been tied to meeting various minimum labour conditions for employees to ensure distribution of benefits. This supplements other initiatives in the budget to help workers that are currently facing cost of living pressures in today's high inflationary environment.

CONCLUSION

The 2023 federal budget provides large investments in clean electricity which is an essential prerequisite to the clean economy. It aims to establish a national electrical grid that connects coast-to-coast-to-coast and delivers cleaner, more affordable electricity to Canadian businesses, and build the technological know-how to become a global leader in the field of clean energy.

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