

## ***2030 Federal GHG Emissions Reduction Plan & Funding Commitments***

By [Charles J. Birchall](#), Partner and Certified Specialist in Environmental Law, and [Natalia Back Gosende](#), Associate. © Willms & Shier Environmental Lawyers LLP.

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### Introduction

On March 29, 2022, the federal government issued the first carbon Emissions Reduction Plan (2030 Plan)<sup>1</sup> under the *Canadian Net-Zero Emissions Accountability Act*.<sup>2</sup>

The 2030 Plan notes that “at current rates, global warming of 1.5 °C will likely be reached between 2030 and 2052, and it is only with “urgent, deep reductions in greenhouse gas (GHG) emissions” that global warming can be limited to below 2 °C. The effects of climate change will be acutely felt in Canada as it is warming at twice the global average, with the North warming three times as fast.

In the Minister’s Forward to the 2030 Plan, the Honourable Steven Guilbeault succinctly sets out the purpose and goal of the 2030 Plan:

“The science is clear. Reducing carbon pollution to net-zero by 2050 is our best chance of keeping the planet livable for our children and grandchildren. Achieving net-zero means we need to reduce emissions to the point that the carbon emissions that we do produce can be negated through measures like tree planting or carbon capture technologies... This is our ambitious and achievable roadmap to reach our emissions reduction targets under the Paris Agreement.”

The 2030 Plan charts a broad path for Canada to reduce emissions to 40% – 45% below 2005 levels by 2030. The federal government has earmarked \$9.1 billion in new investments embedded in 22 programs and funds. There are also binding economy-wide measures such as carbon pricing and clean fuel regulations as well as targeted incentives on a sector by sector basis.

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<sup>1</sup> Canada, 2030 Emission Reduction Plan: Canada’s Next Steps for Clean Air and a Strong Economy, available at <https://perma.cc/WW4C-ZSJ2>.

<sup>2</sup> *Canadian Net-Zero Emissions Accountability Act*, S.C. 2021, c. 22.

The measures and policies under the 2030 Plan are not simply to ward off the worst effects of climate change. It is expected that by meeting Canada's 2030 and 2050 climate objectives, good middle-class jobs will be created and a “competitive, sustainable and inclusive” economy will grow. The 2030 Plan notes that by 2025, clean tech's contribution to Canada's GDP is expected to grow to \$80 billion from \$26 billion in 2016.

The 2030 Plan also provides some general encouragement stating that Canada's investments of over \$100 billion thus far and the introduction of over 100 measures in support of climate-related commitments are “bending the emissions curve” in the right direction.

The following measures and policy signals set out in the 2030 Plan are intended to build on and enhance the progress made to date.

On April 7, 2022, the Honourable Chrystia Freeland, Deputy Prime Minister of Canada and Minister of Finance, delivered the Liberal Party's federal budget (Budget 2022),<sup>3</sup> which accounts for the \$9.1 billion in climate-related funding outlined in the 2030 Plan.

#### Putting a Price on Carbon Pollution

The 2030 Plan notes that carbon pricing is the “cornerstone” of Canada's approach to climate action. The pricing system has two parts: (i) a regulatory charge on fossil fuels such as gasoline; and (ii) a performance-based emissions trading system for industries, known as the Output-Based Pricing System (OBPS). The federal carbon pollution pricing system returns all direct proceeds back to the jurisdiction where they were collected.

The price on carbon pollution started at \$20 per tonne of emissions in 2019 and is slated to increase at \$10 per tonne per year until it reaches \$50 per tonne in 2022. In 2023, the price will start rising \$15 per year until it reaches \$170 per tonne in 2030.

Starting this year, the federal government will return the proceeds collected through the fuel charge to families on a quarterly basis. In addition, the government will provide targeted support to Indigenous Peoples, farmers, and small and medium-sized businesses in recognition of their unique circumstances.

The funds collected under the OBPS will be used through the Decarbonization Incentive Program to support clean technology projects that further reduce GHG emissions. The

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<sup>3</sup> Canada, A Plan to Grow Our Economy and Make Life More Affordable. Available at <https://budget.gc.ca/2022/home-accueil-en.html>.

funds will also support the Future Electricity Fund designed to support the production and delivery of clean electricity.

The federal government will also develop and implement a GHG Offset System under the *Greenhouse Gas Pollution Pricing Act*.<sup>4</sup> The GHG Offset System is intended to encourage voluntary project activities to reduce or remove GHG emissions thus creating offset credits. Facilities under the federal OBPS will be able use federal offset credits as a compliance option.

### Production and Use of Clean Fuels

The federal government has published proposed Clean Fuel Regulations<sup>5</sup> aimed at decarbonizing the transportation sector. They will require liquid fossil fuel (gasoline and diesel) suppliers to reduce the carbon intensity of the fuels they produce and import for use in Canada. The goal of the Regulations is to reduce the carbon intensity of fuels by 15% (below 2016 levels) by 2030.

The federal government will also explore the feasibility of a bioenergy strategy to optimize how Canada uses its agricultural, forestry and municipal waste resources to generate net-zero energy in the medium and long term.

### Supporting the Transition to a Clean Growth Economy

Several funds (Low Carbon Economy Fund, Challenge Fund and the Climate Action and Awareness Fund) have been created to support businesses, governments, not-for-profits, and Indigenous communities and organizations in the adoption of new technologies and programs aimed at reducing carbon emissions. The 2030 Plan and the Budget 2022 provide for the expansion of the Low Carbon Economy Fund through a \$2.2 billion recapitalization.

Under the Budget 2022, the federal government proposes to expand eligible zero-emission technology manufacturing or processing activities through reduced corporate income tax rates. In addition, Budget 2022 proposes to introduce a 30% Critical Mineral Exploration Tax Credit (CMETC) to enhance exploration activities for minerals necessary for ramping up clean technology.

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<sup>4</sup> *Greenhouse Gas Pollution Pricing Act*, S.C. 2018, c. 12, s. 186.

<sup>5</sup> Canada Gazette, Part I, Volume 154, Number 51: Clean Fuel Regulations. Available at <https://gazette.gc.ca/rp-pr/p1/2020/2020-12-19/html/reg2-eng.html>.

## Reducing Methane

Methane has 86 times the warming power of carbon-dioxide over a 20-year period. Over 90% of the methane emissions in Canada come from three sectors: oil and gas, agriculture and waste. In November of 2021, Canada joined the Global Methane Pledge to reduce global anthropogenic methane emissions by 30% (below 2020 levels) by 2030.

The federal government has recently launched consultations to develop more stringent regulations aimed at achieving at least a 75% reduction in methane emissions from the oil and gas sector by 2030. The government intends to release an economy-wide methane reduction strategy later this year.

## Buildings

Buildings were responsible for 12% of Canada's direct GHG emissions in 2019 equaling 91 Mt. More than 85% of those emissions were from space and water heating due to the use of fossil fuel equipment such as natural gas furnaces. The 2030 Plan notes that "much of the technology needed to decarbonize the buildings sector exists today". However, additional federal investments/funding will be needed to encourage fuel switching from fossil fuels (i.e., oil and natural gas) as well as adopting energy efficiency measures such as upgrading the building envelope with improved insulation, and replacing windows and doors. To assist in meeting these goals, the federal government will be making additional investments to accelerate retrofits and net-zero new builds in communities across Canada.

In order to make progress towards achieving a net-zero buildings sector, the federal government plans to invest \$150 million to develop the Canada Green Buildings Strategy. The Strategy will:

- ◆ Develop a Low Carbon Building Materials Innovation Hub to facilitate research, building code reform and demonstration activities promoting the use of lower carbon construction materials;
- ◆ Develop regulatory standards and an incentive framework to support the transition from fossil-fueled heating systems;
- ◆ Require EnerGuide labeling of homes at the time of sale;
- ◆ Launch a new fund to accelerate the adoption of national model energy codes;
- ◆ Improve federal capacity and technical support for the development and adoption of net-zero emission codes;

- ◆ Develop an approach to increase the climate resilience of the built environment.

#### Electricity

The 2030 Plan recognizes that a clean, affordable and reliable electricity system is necessary for Canada to build a prosperous low-carbon future. The goal is to develop a Clean Electricity Standard that will support a net-zero electricity grid by 2035. The federal government has issued a discussion paper<sup>6</sup> and launched a collaborative process with the provinces, territories and Indigenous partners leading to design and scope of the Standard.

Under the 2030 Plan, the federal government is also looking to invest in emerging technologies such as geothermal, tidal, small modular nuclear reactors and electricity storage.

#### Heavy Industry

The federal government is committed to assisting the heavy industry sector as it transitions to a net-zero emissions future while producing low-carbon goods and services. The sector includes mining and manufacturing of various industrial and commercial products such as metals, chemicals and fertilizers, cement and pulp and paper. Plans include:

- ◆ Expanding the Industrial Energy Management Program to support ISO 50001 certification;
- ◆ Developing a comprehensive carbon capture, utilization and storage (CCUS) strategy;
- ◆ Strengthening Canada's mining sector to improve the critical mineral supply chain resiliency to support the green and digitized economy;
- ◆ Launching the Net-Zero Challenge, a voluntary initiative that aims to encourage businesses to develop and implement credible and effective plans to transition their facilities and operations to net-zero emissions by 2050.

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<sup>6</sup> Canada, A clean electricity standard in support of a net-zero electricity sector: discussion paper. Available at <https://perma.cc/HA5F-R6PT>.

## Oil and Gas

The oil and gas sector is a major driver for the economy currently contributing nearly 6% to Canada's GDP. However, according to the 2030 Plan, this sector is also the biggest driver of GHG emissions growth with emissions rising 137% since 2005.

The federal government is considering a range of options to achieve GHG emissions reductions in the oil and gas sector, and is committed to capping and cutting emissions from the sector at a pace and scale that will get it to net-zero by 2050. To this end, there will be an increase in the use of mechanisms already in place such the use of CCUS investment tax credits. A discussion paper will initiate formal consultations on the cap this spring.

According to the 2030 Plan, the federal government “will work closely with the provinces and the sector to manage competitiveness challenges, remain attuned to evolving energy security and climate risk considerations, maximize opportunities for ongoing investment in the sector and minimize the risk of carbon leakage.” The 2030 Plan recognizes, however, that the oil and gas sector may also need time-limited flexibilities such as domestic or international carbon offsets to achieve the reduction targets.

## Transportation

At present, Canada's transportation sector is the second-largest contributor to overall GHG emissions. While the majority of these emissions come from light-duty passenger vehicles and freight transport, there is rapidly increasing consumer demand for zero-emission or electric vehicles (ZEVs). As a result, according to the 2030 Plan “significant economic opportunities exist, both in vehicle production and also battery production (and associated upstream mines and manufacturing and downstream recycling) to create jobs and serve the growing export market.” Canada can capitalize on “its strong manufacturing expertise, mineral deposits, infrastructure and skilled labour force” to take advantage of the global shift to the production of ZEVs.

The 2030 Plan describes the investments, regulations and programs implemented by the federal government to date aimed at advancing clean transportation. Continued efforts are planned and described to make ZEVs more affordable and accessible for Canadians, including additional investment of \$1.7 billion to extend the iZEV purchase incentive program for light-duty vehicles for three years. Budget 2022 provides additional details on the program's design.

The CMETC proposal under Budget 2022, mentioned above, also lists minerals generally used to produce batteries and permanent magnets used in zero-emission vehicles.



## Agriculture

This sector is also a major contributor to methane emissions in Canada. In 2019, agriculture was responsible for 29% of total methane emissions caused by livestock production, use of synthetic nitrogen fertilizers, manure management and on-farm fuel use. In order to tackle this issue, the federal government has invested in environmental stewardship programs, development of clean technologies, nature-based climate solutions and fertilizer emission reductions. The 2030 Plan describes initiatives aimed at continuing to reduce emissions and increasing soil carbon sequestration, including incentives for producers to adopt beneficial management practices and natural-climate solutions such as rotational grazing, regenerative agriculture, and agroforestry.

## Waste

The 2030 Plan notes that governments at all levels as well as Indigenous governments and the private sector have been working to reduce GHG emissions from the waste sector, particularly by increasing waste diversion and addressing landfill methane emissions. Under the 2030 Plan, the federal government will develop regulations to increase the number of landfills that collect and treat their methane. It will also continue to support other governments to develop infrastructure to further reduce methane emissions and find ways to advance the circular economy.

## Nature-Based Solutions

Canada's forests, grasslands, wetlands, agricultural lands and oceans have the capacity to both store carbon and reduce carbon emissions. The 2030 Plan notes that nature-based solutions such as these have the potential to provide up to 37% of cost-effective solutions to meet global targets under the Paris Agreement. Under the 2030 Plan, the federal government plans to:

- ◆ Invest an additional \$780 million in the Nature Smart Climate Solutions fund to deliver additional emission reductions from nature-based climate solutions;<sup>7</sup>
- ◆ Continue to protect critical habitat such as old growth forests;
- ◆ Cultivate the mitigation potential of blue carbon;
- ◆ Continue to explore the potential for negative emission technologies in the forest sector, particularly in facilities where biomass is used as an energy source.

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<sup>7</sup> Budget 2022 earmarked \$780 million over five years, starting in 2022-23, to Environment and Climate Change Canada to expand the Nature Smart Climate Solutions Fund.

## Sustainable Finance

The 2030 Plan states that Canada’s financial sector will play “a key role in raising and guiding the necessary funds to meet Canada’s climate objectives.” In order to do this, financial decision-making will need to incorporate environmental, social and governance (ESG) factors. In addition, more will be needed with respect to climate-related financial disclosures. Increasing and improving such disclosures will provide “a more robust view of climate resiliency and risks and opportunities, which promotes more informed investment, credit, and insurance underwriting decisions.” In turn, more will be expected of the directors and officers of companies and financial institutions to provide accurate information that reflects decisions that account for ESG factors.

Canada’s 2022 Budget confirmed the development of strategies for aligning private sector capital with the transition to net-zero. The Office of the Superintendent of Financial Institutions (OSFI) will require financial institutions to publish climate disclosures—aligned with the Task Force on Climate-Related Financial Disclosures framework—using a phased approach, starting in 2024.

Under the 2022 Budget, the federal government also launched a “Canada Growth Fund”, initially capitalized at \$15 billion over the next five years, to leverage private sector investment aimed at the growth of low-carbon industries.

## Collaboration on Climate Change Mitigation

The federal government recognizes that in order to achieve Canada’s 2030 and 2050 climate objectives, “enhanced collaboration with provinces, territories, Indigenous Peoples, and international peers will be critical.”

The *Canadian Net-Zero Emissions Accountability Act*<sup>8</sup> requires the federal government to take into account Indigenous Knowledge when setting GHG emission reduction targets as well as the requirement to consider the *United Nations Declaration on the Rights of Indigenous Peoples*<sup>9</sup> in the development of emission reduction plans. As a result, the 2030 Plan acknowledges that Canada has an ongoing commitment to improve the reflection of the UN Declaration in its policy and programming, and to work with Indigenous partners to better support their climate priorities. In this vein, the federal government commits to work with First Nations, Inuit and Métis representatives and rights-holders to develop and implement a model partnership for climate action and that establishes an agenda for next steps on:

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<sup>8</sup> *Supra* note 2.

<sup>9</sup> *United Nations Declaration on the Rights of Indigenous Peoples*. Available at [https://www.un.org/esa/socdev/unpfii/documents/DRIPS\\_en.pdf](https://www.un.org/esa/socdev/unpfii/documents/DRIPS_en.pdf).



- ◆ Land-based and rights-based approaches to climate change, including establishing a common approach for the implementation of the UN Declaration in climate policy;
- ◆ Mechanisms to establish federal support for Indigenous-led climate strategies;
- ◆ The mobilization of Indigenous Knowledge systems in national climate initiatives;
- ◆ Options and pathways to transfer authorities and resources to Indigenous Peoples.

### Conclusion

The 2030 Plan to abate GHG emissions by 40% – 45% by 2030 is ambitious both in terms of the target and the financial expenditures associated with it. Many of the mechanisms and details in the various initiatives described above still need to be worked out.

However, there is no time to lose for taking action. The Chair of the Intergovernmental Panel on Climate Change (IPCC) put the GHG issue succinctly with the release of the latest IPCC report on April 4, 2022:

“We are at a crossroads. The decisions we make now can secure a livable future. We have the tools and know-how required to limit warming.”

The Co-Chair of IPCC Working Group was even more direct:

“It’s now or never, if we want to limit global warming to 1.5 °C. Without immediate and deep emissions reductions across all sectors, it will be impossible.”

Under the *Canadian Net-Zero Emissions Accountability Act*, Canada must set emissions reduction targets at five-year intervals and provide credible plans to meet those targets. Progress reports are also required. Those reports should provide details on what is working and what needs to be adjusted or scrapped.

For 2030, progress reports must be published in 2023, 2025 and 2027. Canadians should know whether the federal government is on track to meet its climate objectives.

Priced at \$9.1 billion, the 2030 Plan is expensive but may not seem so given RBC’s estimate that Canada will need to invest two trillion dollars over the next 30 years (approximately \$60 billion per year) to achieve net-zero emissions.

Further, even with the most ambitious efforts to reduce emissions, there will continue to be significant climate and weather events in Canada. As a result, climate adaptation

actions are necessary. Canada's first National Adaptation Strategy is due to be released by fall 2022.

The 2030 Plan, with its combination of binding measures, investments and policy signals, is a "living document". There is no doubt that significant collaborative efforts will be needed to achieve progress and that emissions reduction plans will evolve and change in order to give Canada the best opportunity to meet its 2030 target of reducing GHG emissions by 40% – 45% and its over-arching goal of net-zero by 2050.

[Charles J. Birchall](#) is a Partner at Willms & Shier Environmental Lawyers LLP in Ottawa and certified as a Specialist in Environmental Law by the Law Society of Ontario. Charles may be reached at 613-761-2424 or by e-mail at [cbirchall@willmsshier.com](mailto:cbirchall@willmsshier.com).

[Natalia Back Gosende](#) is an Associate lawyer at Willms & Shier Environmental Lawyers LLP in Toronto. Natalia may be reached at 416-642-4877 or by e-mail at [NBack@willmsshier.com](mailto:NBack@willmsshier.com).

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