AUGMENTING CANADA'S CLIMATE ACTION FOR ADAPTING TO AND MITIGATING EXTREME WEATHER EVENTS

ISSUE STATEMENT

How can Canada better its climate action commitments and contribute to climate finance as a mechanism to adapt to and mitigate extreme weather events?

BACKGROUND

Global Climate Action Commitments

- The global effort to scale up responses to climate change formally began in 2015 at the 21st Conference of Parties (COP21) with the adoption of the Paris Agreement by 192 countries and the European Union.
    - Climate action in this context resulted in commitments from all parties to reduce emissions and work as a collective to adapt to the impacts of climate change.
    - These commitments have largely taken the form of domestic and international policies targeted at keeping global average temperatures from rising above 1.5 degrees Celsius.

- The Paris Agreement also called for financial assistance from parties with more financial resources to be directed to less-developed nations particularly vulnerable to extreme weather events.
    - At COP21, parties recognized the commitment of developed countries to jointly mobilize USD$100 billion per year in climate finance by 2020 to address the climate change adaptation and mitigation needs of developing countries.

- Climate finance has been defined by the United Nations Framework Convention on Climate Change (UNFCCC) as local, national, and transnational financing to support climate change mitigation and adaptation efforts.

- Climate finance funding is drawn from public, private, and alternative sources of financing.
    - Public financing consists of government expenditures, including contributions to the Green Climate Fund, adaptation efforts in nations affected by climate change, and funding for mitigation technology development.
    - Under the Paris Agreement, the Green Climate Fund is mandated to distribute financial contributions from developed nations for projects related to climate change adaptation and mitigation efforts.
    - Companies and investors contribute to climate finance through what is referred to as 'private financing.'
    - Private sector actors invest in opportunities where there are potential profits, which result in private financing primarily aimed at developing mitigation technologies.
    - Alternative financing comes from sources outside of governments, companies, or private investors; typically, this is in the form of philanthropic capital, whereby philanthropic contributions are made without expectation of return on investment.

- Blended finance is a financing mechanism that uses public and alternative sources of capital to mobilize private investment in projects that support sustainable development.
    - At COP26 in Glasgow, blended finance was identified as a way to encourage private sector participation in climate finance.

- According to the Intergovernmental Panel on Climate Change, USD$1.6-$3.8 trillion in climate finance is required to maintain commitments in accordance with the Paris Agreement.
    - The most recent figures from the OECD estimate that current climate finance contributions of developed countries in 2019 totaled USD$79.6 billion

Canada's Climate Action Commitments

- From 2015 to 2021, the Government of Canada delivered CAD$2.65 billion in international climate finance to developing countries.
    - These funds prioritized climate change and adaptation and mitigation efforts, the mobilization of private-sector capital, and the provision of support to UNFCCC institutions and mechanisms.

- In 2018, the Government of Canada and International Finance Corporation–a member of the World Bank Group–established the Canada-IFC Blended Climate Finance Program.
    - This partnership is in line with Canada's original commitment in 2015 of CAD$2.65 billion over five years to help developing countries tackle climate change, with a focus on adaptation and resilience efforts for the world's most poor and vulnerable countries.
    - The program provides concessional financing for private-sector-led projects across the globe, with a growing focus on the poorest and most vulnerable countries.

- At the 2021 G7 Leaders' Summit, Canada announced a two-fold increase of its international climate finance commitment, to CAD$5.3 billion over the next five years.
- At COP26, Canada provided further details on how its commitment will support developing countries as they adapt to climate change and transition to a cleaner economy.
    - In addition to increasing provision of grants to 40 per cent (up from 30 per cent), Canada will increase its provision of funding towards adaptation to a minimum of 40 per cent.
    - Canada will allocate a minimum of 20 percent to projects that use nature-based solutions and projects that contribute to biodiversity co-benefits in developing countries.

- Canada accepted an invitation by the United Kingdom's COP26 President to co-lead a process, alongside Germany, to further build trust that developed countries stand by their collective commitment to deliver the USD$100 billion climate finance goal through 2025.
    - Analysis from the OECD indicates that the USD$100 billion goal is within reach in 2022 and is tracking to be met in 2023.

JURISDICTIONAL SCAN

- Canada's jurisdictional peers have made domestic and international commitments and contributions to climate action that have extended beyond the progress made by the Government of Canada.

The United Kingdom

- The UK Government maintains several world-leading climate policies and actions.
    - The UK is one of the only parties with domestic emissions reduction targets compatible with the <1.5 degrees Celsius target established in the Paris Agreement.
    - The UK Government has also enshrined a net-zero target by 2050 in law through revisions and amendments to their *Climate Change Act 2008* in 2019.
    - The UK Government has committed GBP11.6 billion to international climate finance and is the largest investor in the Climate Investment Funds (CIF) – one of the world's largest and most ambitious multilateral climate finance mechanisms.

European Union

- The *European Green Deal* is the framework through which the European Union is working collaboratively to combat the effects of climate change and achieve net-zero emissions by 2050.
    - Under the *2021 European Climate Law*, a 55% reduction in greenhouse gasses by 2030 and carbon neutrality by 2050 has become a legally binding obligation.
    - To achieve these emissions reductions, the law restricts the sale of vehicles powered by fossil fuel, increases taxation on aviation fuel, levies tariffs on imported products that generate emissions in manufacturing, and requires building retrofits to increase energy efficiency.
    - Different sectors will be held to different emissions standards, with an emissions trading scheme ensuring a net-zero economy.

KEY CONSIDERATIONS

- **The Role of Natural Resources in Canada**
  Canada's endowment of natural resources continues to contribute significantly to the national economy and determines equalization payments to provinces. With the objective to eliminate pollution from natural resource development and heavy industry, which currently constitutes 37% of Canada's total greenhouse gas emissions, policymakers must reconcile the current policy architecture in the context of the country's move towards the adoption of clean technologies, delivering on a promise of biodiversity and human wellbeing co-benefits, in addition to managing relationships with natural resource-rich provinces disproportionately impacted by the disruption to their natural resource sectors.
- **Scope of Climate Action and Time Sensitivity**
  It is widely cited that current climate action and policy efforts from developed countries are insufficient to achieve Paris Agreement targets. Collective action requires considerable increases in funding to support mitigation and adaptation efforts, including greater commitments with respect to climate finance. Current estimates of climate finance figures and forecasts are thought to be inflated because of a lack of uniformity in international standards. The result has been disparate and disjointed efforts, which undermines effective international cooperation. Accurate reporting of climate finance contributions requires clear standards for which capital flows can be included. Central to the Paris Agreement are Nationally Determined Contributions (NDCs) which outline individual country plans for emission reductions and adaptation, including financial commitments. NDCs can help determine what constitutes a country's fair share contribution.

- **Perceived Risk Associated with Private Climate Finance**
  Within the private sector, climate finance investments are considered to be riskier than those in traditional industries. This is at least in part due to the fact climate change and its effects remain largely a black swan in terms of the ability to forecast and mitigate risks to return on investment. To incentivize greater private sector engagement, there need to be more guarantees and education surrounding climate finance opportunities to provide greater investment security.
- **Opportunity for Government and Private Sector Collaboration**
  The potential for government and cross-sectoral partnerships should be considered. Climate Finance remains a largely uncharted venture that cannot be managed by governments in a silo. Establishing cross-sectoral partnerships domestically and around the world could reduce the perceived risk associated with these new and necessary investments. This is especially true for technological industries that require significant capital upfront to innovate.

OPTIONS

Option 1: Broaden the Scope of Canada's Climate Finance Commitment

- Within the context of climate action, the focus of climate finance as a mechanism for adapting to and mitigating extreme weather events has focused on supporting developing nations most affected by climate change. While these efforts should continue, Canada should place equal priority on incentivizing innovation with respect to mitigation efforts. Experts have determined adaptation efforts to be expensive in both the near and long term; however, while mitigation will require significant capital investment upfront, it would be far less costly than inaction or insufficient investment in this area in the short term. Mitigation efforts are also set to largely take the form of technological innovation, which provides an opportunity for private sector engagement through guaranteed return on investment and incentive alignment through potential partnerships with the government. This reduces the risk associated with capital investment for private sector actors in addition to potentially addressing a number of domestic concerns surrounding natural resource extraction should we own the patents to this technology and have easy access to its benefits. The risk associated with this alternative is that broadening the scope of climate finance commitments does not necessarily mean budgetary resources in this area will increase. In addition, broadening the scope is neither the most timely alternative nor is it impactful in the near term.

Option 2: Initiate Agreements on Sustainable Economic Activity

- The European Union adopted a taxonomy of standards for sustainable economic activity, which determined what can officially be labeled a sustainable investment. The taxonomy is centered around six primary objectives – climate change mitigation, adaptation, protection of waterways and marine life, transitioning to a circular economy, preventing pollution, and protecting biodiversity. Following these objectives, a classification system for determining what economic activities can rightly be considered sustainable was developed. Creating stricter definitions for terms like "sustainable" and "green" legitimizes the sustainable investing space, as investors can be more confident that the projects they have supported are aligned with vital environmental goals. The support of the European Union coupled with increased transparency surrounding environmental impacts are both ways that private sector participation in climate finance can be de-risked.

- The Canadian government should enter into an agreement with the European Union to align its standards for sustainable economic activity. International cooperation will help amplify the positive environmental and economic impacts of increased private climate finance. Currently, the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) governs the mutually beneficial economic relations between Canada and EU member states. Sustainable business practices including environmental reporting and accurate labeling of economic activities should not hinder the prosperous relationship that exists between Canada and the EU. Aligning standards in the transition to a sustainable economy paves the way for continued economic cooperation across the Atlantic, which might include information-sharing pertaining to technology and other innovative mitigation and adaptation methods.

Option 3: Create New Venues for Policy Collaboration (RECOMMENDED)

- To facilitate stronger climate finance initiatives throughout Canada and the world, officials from all levels of government, their agencies, and a policy network comprised of private sector actors, members of civil society, and Indigenous groups require a venue through which they can coordinate policy, resolve conflicting approaches, and share best practices for climate action. A forum such as a delivery unit or secretariat that fosters cross-sectoral collaboration while facilitating inter-ministerial and intergovernmental consultation processes would allow the Government of Canada to effectively implement climate policies aligned with Paris Agreement commitments as well as fair-share contributions in accordance with Nationally Determined Contribution (NDC) targets.
- The establishment of a commission or member-based organization is a relatively low-cost option with the potential for near-term implementation and large impact. Building the architecture for a convention of stakeholders and links in the delivery chain to address specific climate action objectives allows for the evaluation of both new and existing policies with a climate-focused lens that includes opportunities for climate finance investment. Permanent seats should be assigned to Privy Council Office, Global Affairs Canada, Innovation, Science and Economic Development Canada, Natural Resources Canada, and Environment and Climate Change Canada, with membership opportunities for provinces, municipalities, as well as other key stakeholders and links in the delivery chain. This would include the engagement of Crown Corporations like Export Development Canada (EDC) and Business Development Canada (BDC) to encourage the development and export of crucial Canadian climate solutions and clean technologies. Canada is home to some of the most innovative startups in this realm and thus their products and services ought to be promoted domestically and abroad.
- This type of collaboration would require incentive and objective alignment among members of the delivery chain, in addition to stakeholder and relationship management to maintain the integrity of the network and ensure a willingness for meaningful participation for all parties involved. Objectives with respect to climate change efforts would need to be re-established as a collective with roadmaps to success charted out in the short, medium, and long term. This venue is also well-positioned to facilitate the successful implementation of the previously mentioned alternatives should they remain viable in the future.

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