

## Energy transition price tag of \$2 trillion is 'manageable', Royal Bank report says

Lender plots out new climate approach, calls out Canada for missing all targets

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GEOFFREY MORGAN

RBC believes the Canadian government and the private sector need to spend \$56.4 billion annually over 30 years in six different sectors to meet its net-zero emissions targets, which it says is less than what is spent on health care.

The cost of transitioning Canada's economy to net-zero emissions is pegged at \$2 trillion over the next 30 years, but funds are available to finance the transition, according to the country's largest financial institution.

"In total, it seems like a daunting number, but when you break it down, it's manageable for an economy like Canada," said John Stackhouse, senior vice-president at the office of the CEO at Royal Bank of Canada, and a co-author of the report released Wednesday. "We're looking at \$60 (billion) to \$80 billion per year, that's much less than we spend on health care, for example. It's in line with what we aspire to spend on childcare."

In a report called "The \$2 Trillion Transition: Planning for Canada's place in a Net Zero world," RBC plots out a possible course for the country to reduce its emissions in line with a net-zero emissions target by 2050 and budgets the cost of the shift.

The cost is roughly equivalent to Canada's annual GDP last year, which stood at just under \$2 trillion last year, according to Statistics Canada.

All told, the Toronto-based bank believes the government and the private sector need to spend \$56.4 billion annually in six different sectors to meet its net-zero targets. Broken down, the report pegs the price tag at \$25 billion per year building out electric vehicle infrastructure in the transportation sector, \$13.7 billion on emissions reductions in the oil and gas sector, \$5.4 billion retrofitting old buildings, \$5.4 billion in the electricity sector, \$4.4 billion in the heavy industries and \$2.5 billion in the agricultural sector annually.

For the oil and gas industry, which is the largest source of emissions in Canada, the study relied on a 2014 report from the Pembina Institute and a 2019 report from Vancouver-based Navius Research to anticipate carbon capture and storage costs and costs from the implementation of a clean fuel standard.

The Canadian industry has asked the federal government and Alberta provincial government for support in deploying carbon capture, utilization and storage technology to reduce their emissions, and Ottawa has responded by offering some tax incentives for rolling out the technology.

The two sides are still in discussions on whether the tax breaks can be applied when captured carbon can be pumped into wells to recover more oil in a process called enhanced oil recovery.

Even as the country's largest oil and gas producers implement emissions-reducing technologies, oilsands production is expected to remain a key emissions driver, according to the RBC report. The sector's total emissions are projected to fall from roughly 70 million tonnes of CO<sub>2</sub> in 2020 to 46 MT in 2030, but could be driven down further to 30 MT with "extensive carbon abatement," the RBC report notes.

The expected cost of emissions reductions in the oilsands is projected to be \$5.5 billion annually.

While the price tag for achieving net-zero targets is large, RBC's Stackhouse believes there is enough money available to finance the transition.

"Capital is not a problem. We at RBC have committed \$500 billion to sustainable finance. For good projects, good opportunities, there is plenty of capital. The world is looking for these types of opportunities," Stackhouse

said. "What we really struggle with is making collective decisions on how to go about solving these challenges, even on what needs to be done."

The Canadian government has set a target of reaching net-zero carbon emissions by 2050 but has been heavily criticized for lacking interim emissions reductions targets and for failing to hit its current emissions targets.

The RBC report shows carbon emissions in Canada have climbed 87 per cent in the oil and gas industry in the past 30 years from 102 million tonnes of CO<sub>2</sub> in 1990 to 191 MT in 2019. Emissions have also risen 38 per cent in the transportation industry to 186 MT, 28 per cent from Canada's buildings to 91 MT and 28 per cent in the agricultural sector to 57 MT.

On the other hand, Canada's electricity, heavy industry and waste sectors have posted emissions reductions in the same time frame. Carbon emissions from the country's electricity supply have posted the largest emissions decline of any sector, dropping by 34 MT, or 35 per cent, from 95 MT in 1990 to 61 MT in 2019.

The report says the country has taken a "piecemeal approach to environmental regulation and protecting the climate" that has resulted in Canada missing all of its climate targets. The authors argue a new approach, with multiple national strategies, is necessary to meet current targets.

"Getting to net zero will require a bolder plan, teeing up changes for the coming decades, not just the coming years," the RBC report states.

The RBC report highlights eight policies the country could follow to reach its net zero targets. These include a national electrification policy, a national strategy for green jobs, an industrial strategy on carbon capture, a national plan for sustainable agriculture, a push for electric vehicles, retrofitting buildings and creating a border carbon adjustment tax with the United States on goods from higher-emitting regions.

Stackhouse said there is likely to be some resistance to these policies, particularly as they would force change on some of the largest industries in Canada, but said, "We need to weigh that against the likelihood that if we don't do anything, decisions will be made for us elsewhere."

Federal officials are expected to announce further climate policies ahead of the COP26 global climate conference in Glasgow, which begins Oct. 31.

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