

Critical Next Steps to Ensure Canada's Future Competitiveness:

Coupling Economic Goals and Emissions Reduction

A NET-ZERO INDUSTRIAL POLICY BRIEFING

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THE CASE

Canada needs a [smart response](#) to the *Inflation Reduction Act* and the EU's *Green Deal Industrial Plan*. This will require more than just subsidies in the same old sectors. It must ensure that the public funds that have already been put on the table are used effectively to build supply chains and mobilize the private capital necessary to compete. To do this, Canada needs a net-zero industrial policy to build the future economy through strategic collaboration in areas where Canada has significant economic opportunities.

While the Canadian economy is strong today and the labour market is tight, the foundations of the future economy are being built right now. Tomorrow's jobs are created by today's investment in the goods and services of tomorrow. These products and business models are changing in the net-zero transition. Canada already has a chronic problem with business investment lagging our peers ([C.D. Howe Institute](#), 2022).

Future economic prosperity, vibrant export sectors, and good-paying jobs depend on increasing the amount of investment and, more importantly, targeting critical sectors, particularly those that will see major growth opportunities in the net-zero economy. Industry has called for this. The Business Council of Canada (BCC), in a [report](#) issued the first week of March 2023, emphasized the urgency of developing a "coherent national strategy to be a key player in . . . accelerating the ability of organizations to reduce their emissions and succeed in a low-carbon economy." Key Canadian sectors have formally endorsed the approach presented in this discussion paper.

THE GLOBAL NET-ZERO CHALLENGE IS NO LONGER JUST ABOUT EMISSIONS—IT IS THE DOMINANT GLOBAL DRIVER OF FUTURE ECONOMIC COMPETITIVENESS.

INDUSTRIAL POLICY TODAY MEANS GETTING STRATEGIC

The Government of Canada has already put lots of money on the table. The priority now is ensuring that the funds are spent *in a strategic manner* that does not result in diluted investments that have little impact, that truly build the sectors and companies of the future.

Critically, in contrast to only a few years ago, a strong global [consensus has developed around the technologies](#) that can be functional, economic and net-zero, and those that cannot. Debates over the potential role of the internal combustion engine (ICE) were inconclusive three years ago. Now global governments are moving quickly to mandate the elimination of ICEs despite opposition from incumbent interests. There is existing or quickly emerging certainty on technologies for other key sectors. Canada's [global competitors have recognized](#) there is more certainty than uncertainty for many net-zero solutions and are moving quickly and aggressively to lock in their future competitiveness via modern industrial strategies at Canada's expense. This is not governments picking winners and losers. It is astute, forward-looking government action based on up-to-date, independent, unbiased techno-economic analyses.

The federal government should clearly state its intention to be a leader in developing a net-zero industrial policy. Leadership and coordination will require some resources, but the needs are tiny compared to budgetary resources already announced and committed to support and incentivize the net-zero transition. However, without federal leadership and a more deliberate industrial policy, existing investments and initiatives may well deliver emissions reductions, but they risk being diluted and ineffective.

This requires federal leadership and partnership with provinces, territories, industry, Indigenous communities, and other stakeholders. A well-designed and executed industrial policy development process will result in other

levels of government and industry sharing responsibility in policy development and implementation. Industrial policy is not the sole responsibility of the Government of Canada, yet current framing and development processes result in this perception and put pressure on the federal government to deliver. An associated outcome of the distributed leadership in a modern industrial policy is to future-proof outcomes against government changes.

Specific policies and incentives will need to be adjusted over time. Our [previous work](#) has emphasized the importance of establishing a **process of strategic interaction** between government, industry, and other parts of society. Again, the BCC refers to industrial policy as a “vehicle to discuss critical issues for success.”

HOW: KEY ELEMENTS AND INSTITUTIONS

Canada, including the federal civil service, has fallen behind in modernizing our institutions for industrial policy. To correct this, the federal government needs to take deliberate steps to build the culture and the capacity to effectively and efficiently pursue our most promising opportunities for value-added growth and jobs on the path to net-zero emissions.

The success of net-zero industrial strategy depends on learning from lessons here and in other countries. The work of the Economic Strategy Tables was excellent—bringing together leaders to set a vision—but the tables did not contemplate implementation approaches. No entity has the mandate to track or report on progress nor make thoughtful recommendations on how processes could be adjusted to ensure they remain relevant and effective in a changing world. Further, there is no shared vision of a future Canadian economy, which would be inherent in an industrial policy, and would help federal departments align on desired outcomes, allowing them to focus their effort on actions that will deliver on the vision. This lack of alignment leads to inefficient effort and can feed interdepartmental frictions.

We propose three key elements that would help to kickstart industrial policy in Canada, building capacity for strategic collaboration in government and in society as a whole.

GOALS AND MILESTONES

Goals are a key part of implementing any plan. The private sector has a culture of embedding implementation targets and milestones. A modern, strategic industrial policy should have goals that are *concrete economic objectives (or targets)* and that refer to the deployment, production, and performance of key technologies.

- The proposed goals and associated milestones should be set in well-defined opportunity areas with addressable markets. Orienting to markets creates the focus needed to drive actionable strategies.
- Competitiveness goals could include: amount of clean hydrogen produced by a specific future date, amount of critical mineral (by type) produced by a specific future date, amount of battery capacity produced by a specific future date, etc.
- Goals and milestones should be indexed to a vision of Canada’s place in specific global supply chains—e.g., be framed as x% of world production or have an export component where possible.
- For instance, [draft legislation](#) for the EU Critical Minerals Act “aims for EU countries to extract enough ores, minerals and concentrates to produce at least 10 per cent of their strategic raw materials by 2030. At least 40 per cent of the used materials should be processed in the EU by then.”

PUBLIC-PRIVATE PARTNERSHIPS

International best practices in industrial policy underline the key role of robust public-private partnerships in priority sectors, supported by **deliberative tables** and **independent intermediaries**. These partnerships would create collaboration clusters at the sector level, which would be used to align strategy, policy, and financing.

The key to [successful industrial policy](#) is good information flows between the government and the private sector. In order to set goals that challenge the sector while remaining realistic, governments have to know what is going on in the real economy. To make good investment decisions, governments need the kind of high-quality information and analyses that firms exchange with one another all the time: who has a good team, whose fundamentals are sound, where is the smart capital going, and so on. But they need to obtain this information without becoming captured by industry.

There are many critical flaws in traditional government-industry interactions. Industry associations often dominate the interactions and focus on influencing government decisions in the short term, reflecting their members' immediate concerns. The positions advanced by these associations are both consensual, but also often dominated by incumbents who are not motivated to change at the pace the climate crisis requires, leading to a lack of ambition and progress. Individual companies are often similarly active and sophisticated in influencing government, especially larger companies with government relations resources and experience. Smaller companies, which so often become important drivers of future economies, are often not able or resourced to play an adequate role in developing industrial policies.

However, there are simple, timely solutions to these systemic challenges in new, practical, public-private relationships that ensures government retains its decision-making role, but delivers better, more lasting outcomes. Key elements that would be selected and nuanced to ensure fit-for-purpose solutions for any individual sector include:

Tables as sector-level vehicles for deliberative exchange and planning:

- Participants selected for expertise and commitment to action aligned with the economic imperative and emissions challenge
- Empowered as problem-solvers
- Active working groups (not talking shops) that advise government on competitiveness goals and milestones, create strategy, recommend mitigation/corrective actions to address barriers, identify high priority investment and project areas and/or types
- Work closely with relevant government divisions and intermediaries on project pipelines and implementation

Independent intermediaries support the work of sector tables by:

- Catalyzing flows of information between government and industry
- Providing independent expertise (e.g. intelligence on global trends and activities, assessment of data quality and pertinence, technoeconomic analyses, identification and development of technological options and roadmaps) not beholden to either side (avoiding undue influence by captive interests, conservative cultures etc.)
- Building from an established position of trust as existing partners of industry
- Some models have intermediaries play secretariat or other leadership roles for the tables

GOVERNMENT BODIES

How can best practices be applied to government institutions in Canada? Institutional innovation is often necessary to build the culture and practice of modern industrial policy with a net-zero focus. Cross-departmental interaction and synergy would be important to set up a new industrial policy process for success. But setting up those processes will take time, and the need to act is urgent, so it is important that government bodies work closely with industry and independent intermediaries to catalyze strategic action now.

Elements to guide appropriate cross-departmental innovation could include things like:

- Ensure the work is prioritized at the highest level
- Raise prominence of industrial policy as the cornerstone of economic policy
- Promote coordination (and friction resolution) across key departments, at the political level, above historical divisions between departments' bureaucracies,
- Frame initiatives and strong leadership by existing departments, allow them to claim ownership of new approaches
- Capitalize on standard change management theory, like framing new approaches as test cases that would be evaluated before complete adoption

CONCLUSION

A net-zero industrial strategy is critical for laying a foundation for broad-based prosperity in the years ahead. Budget 2023 provides an opportune moment for the federal government to clearly signal its intention to lead on a net-zero industrial strategy initiative. This does not require a major allocation of new budgetary resources, but a process to ensure that existing funds, as well as any new or future resources, are used as effectively as possible. Details will need to be worked out quickly in the coming months, particularly in how inter-departmental coordination can best oversee the work of sector tables, supported by independent intermediaries.

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Bentley Allan, PhD, is a research director at the Transition Accelerator, as well as an Associate Professor of Political Science at Johns Hopkins University. Dr. Allan is an award-winning scholar who has written on the dynamics of international order, science and politics, climate policy, and the political economy of decarbonization. Dr. Allan co-leads the project Canada's Future in a Net-Zero World which builds support for a green industrial strategy in Canada. The project identifies economic opportunities in the energy transition, co-develops industry roadmaps to accelerate action, and distills lessons for smart industrial policy from international case studies.

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Director of Industrial Policy at the Transition Accelerator, **Derek Eaton** is an economist with more than 30 years of experience in developing policy insights and recommendations to integrate sustainability into decision-making. Derek's global career has ranged across the energy, agriculture, food, water, trade, investment, finance and innovation sectors. His professional focus has centered on understanding how economic change and transformation takes place. He brings valuable insights from his experience working for the UN, government, research organizations, universities, think tanks and consulting spanning the research, policy and practice interface.

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ABOUT THE TRANSITION ACCELERATOR

The Transition Accelerator (The Accelerator) exists to support Canada's transition to a net zero future while solving societal challenges. Using our four-step methodology, The Accelerator works with innovative groups to create visions of what a socially and economically desirable net zero future will look like and build out transition pathways that will enable Canada to get there. The Accelerator's role is that of an enabler, facilitator, and force multiplier that forms coalitions to take steps down these pathways and get change moving on the ground.

Our four-step approach is to understand, codevelop, analyze and advance credible and compelling transition pathways capable of achieving societal and economic objectives, including driving the country towards net zero greenhouse gas emissions by 2050.