2 PHASING OUT FOSSIL FUEL SUBSIDIES AND NON-TAX SUPPORT

Photo: Zbynek Burival

Recommendation Summary

The federal government has committed a number of times to stop subsidizing fossil fuels in Canada, recognizing that inefficient subsidies for fossil fuels undermine efforts to deal with climate change, encourage wasteful energy consumption, reduce energy security, and impede investment in clean energy. However, in 2017 Canada's Auditor General found that certain tax provisions in support of the fossil fuel industry have not been reformed by the Finance Department and that the Finance Department had not developed an implementation plan with timelines to support the phase-out by 2025.

Changes announced in Budget 2017 on fossil fuel subsidy reform were a positive step forward. In June 2018, the federal government also announced

GBC Feature Recommendations – Alignment with Political Priorities

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Fossil Fuel Subsidies & Supports

Meeting Public Expectations	✔
Improving Health & Wellbeing	✔
Reducing GHG Emissions	✔
Climate Resilience	✔
Reconciliation with Indigenous Peoples	
Healthy Waters	
Protecting Nature & Wildlife	✔
Clean Growth & Innovation	✔
Economically Sustainable Rural & Remote Communities	

it would enter into a peer review of its fossil fuel subsidies with Argentina, a welcome commitment that should help achieve the transparency needed to fulfil Canada's 2025 phase-out commitment. The Green Budget Coalition calls on the Government to take the most important next steps by:

1. Disclosing costs of all federal direct spending and value of annual tax deductions claimed for exploration, development and production of coal, oil and natural gas. This information should also be provided to the Parliamentary Budget Office.
2. Initiating work with partner countries to define "inefficient" fossil fuel subsidies.
3. Proceeding with a transparent and credible peer review of Canada's fossil fuel subsidies with Argentina that reflects the recommendations on subsidies made in this document.
4. Committing to not introduce new subsidies for fossil fuels.
5. Legislating a timeline for the phase-out of remaining deductions for fossil fuel exploration and production.
6. Legislating a timeline for the phase-out of other non-tax supports to the fossil fuel industry.

Cost: Very low. Annual savings of several hundred million dollars.

Photo: B. Geckoz

Photo: Boris Glovatskiy

Background and Rationale

In its election platform, the government committed to stop subsidizing fossil fuels in Canada. The commitment was reaffirmed as recently as June 2018 at the G20 Energy Ministers' Meeting in Bariloche, Argentina. Canada officially recognizes that inefficient subsidies for fossil fuels undermine efforts to deal with climate change, encourage wasteful energy consumption, reduce energy security, and impede investment in clean energy. However, in 2017 Canada's Auditor General found that certain tax provisions in support of the fossil fuel industry have not been reformed by the Finance Department. In addition, the Auditor General found that the Finance Department had not developed an implementation plan with timelines to support the phase-out by 2025 and the government had no plan to reform flow-through shares, which allow fossil-fuel corporations to transfer tax deductions to investors. Canada also provides a range of non-tax provisions that support fossil fuels, such as billions of dollars in Export Development Canada financing for oil and gas projects.

In the North,[10] subsidies to offset the price of fossil fuels cost the government millions of dollars annually, $36.5 million of which goes toward diesel-based electricity generation in Nunavut alone. The true price of diesel is masked by multiple layers of subsidies that reduce the price to an artificial level, creating a barrier to the adoption of renewable energy. While we recognize the importance of ensuring affordable energy access in the North, renewable energy has proven to be reliable, even in extreme climates, and research shows it can save some Arctic communities millions in ongoing costs, even with existing diesel subsidies. The savings would be even more significant if diesel subsidies were shifted to renewable-energy sources instead. There is no reason for the government to continue funding the use of fossil fuels that are not only damaging to the environment and human health, but are more expensive than cleaner forms of energy.

10. WWF Canada & IISD (2017), Tracking Diesel Fuel Subsidies in Nunavut: A mapping exercise, http://assets.wwf.ca/downloads/costing_fossil_fuel_subsidies_in_nunavut.pdf

Changes announced in Budget 2017 on fossil fuel subsidy reform were a positive step forward. In June 2018, the federal government also announced it would enter into a peer review of its fossil fuel subsidies with Argentina, a welcome commitment that should help achieve the transparency needed to fulfil Canada's 2025 phase-out commitment. The Green Budget Coalition calls on the Government to:

Photo: Jesse Bowser

1. Disclose costs of all federal direct spending and value of annual tax deductions claimed for exploration, development and production of coal, oil and natural gas, and provide this information to the Parliamentary Budget Office.
2. Initiate work with partner countries to define "inefficient" fossil fuel subsidies.
3. Proceed with a transparent and credible volunteer peer review of Canada's fossil fuel subsidies with Argentina that reflects the recommendations on subsidies made in this document.
4. Commit to not introduce new subsidies for fossil fuels.
5. Legislate a timeline for the phase-out of the following remaining tax deductions for fossil fuel exploration and production:
    - Accelerated Capital Cost Allowance for Liquefied Natural Gas projects (in advance of its scheduled end in 2025);
    - Canadian Development Expenses claims;
    - Canadian Exploration Expenses claims, including for unsuccessful exploration;
    - Remaining Flow-through Share deductions for oil and gas sector;
    - Canadian Oil and Gas Property Expense claims; and
    - Foreign Resource Expense claims.

Photo: M. Scarc

Photo: Chris Kolaczan

6. Legislate a timeline for the phase-out of other non-tax supports to the fossil fuel industry, starting with the following:
   - Duty Exemption for Imports of Mobile Offshore Drilling Units in the Atlantic and Arctic;
   - The Natural Gas component of the "Deploying Infrastructure for Electric Vehicle Charging and Natural Gas and Hydrogen Refuelling Stations" program; and
   - Export Development Canada financing for oil and gas companies. After 2019, the World Bank Group will no longer be financing upstream oil and gas projects, in addition to other climate actions and commitments to increase transparency, by for example reporting on expected carbon emissions from project investments.[11] The GBC recommends that Export Development Canada move in a similar direction, and quickly eliminate the financing of oil and gas projects.

Overall Recommendation Cost: Very low. Annual savings of several hundred million dollars.

We note that unsuccessful exploration expenses can still be deducted from business income and that exploration and development expenses for fossil fuels can still be renounced as flow-through shares.

Please see also the Complementary Recommendations, later in this document, regarding Climate Change and Energy Sustainability, particularly on Carbon Pricing, Attributing the Costs of Climate Change, and Supporting the Transition to Cleaner Ship Fuels in the Canadian Arctic.

11. http://www.worldbank.org/en/news/press-release/2017/12/12/world-bank-group-announcements-at-one-planet-summit

Related:

The government purchase of the Trans Mountain pipeline

At the end of May 2018 the Government of Canada announced that it would be purchasing the Trans Mountain pipeline system, including existing assets and the proposed expansion project (TMX), from Kinder Morgan for a sum of $4.5 billion. Including recent estimates of the capital cost of TMX, increasing costs and ongoing delays, the Government's commitment to indemnification against "politically motivated" delays, and financial assurances for the project's land-based spill risk, the final cost of the Kinder Morgan purchase could exceed $11 billion.

It is not yet clear that the purchase of Trans Mountain amounts to a fossil fuel subsidy, but there is a high risk it might evolve into one in the long-term. The Green Budget Coalition is concerned that there will be a subsidized element of the sale, such as the government's commitment to indemnifying TMX or the possibility that the newly-acquired assets could be sold to a private buyer for an amount that is below market value. This has the potential to be inconsistent with Canada's commitment to a 2025 phaseout, underscoring the need for transparency around the financial aspects of this project.

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