

## Windfall profits tax on oil and gas companies

Canadians are facing escalating costs of living and climate change impacts, while corporations in the fossil fuel sector are reporting record profits as they continue to feed into the climate crisis, due in part to the surge in oil and gas prices following Russia's invasion of Ukraine. These profits are therefore considered windfall profits, since they accrued to oil and gas companies without additional investments or expenditures.

Moreover, high fossil fuel prices play a leading role in the affordability crisis and have played a key role in driving recent inflation.<sup>56</sup> Research shows that 25% of the inflation that accrued over the 2020-2022 period is attributable to oil and gas profits.<sup>57</sup>

Despite profits of \$33.7 billion in 2022 and over \$25 billion in 2023,<sup>58</sup> the largest Canadian oil and gas companies continue to increase their greenhouse gas emissions, which now represent nearly a third of national emissions. They have failed to use these profits to invest in emissions reductions, instead returning profits to shareholders.<sup>59</sup> At the same time, the Canadian government has provided billions of dollars in subsidies and public financing to the fossil fuel sector. Since 2016, Export Development Canada has provided more than \$88 billion to the oil and gas sector.<sup>60</sup>

In response to excessive profits in the fossil fuel sector, other countries, such as the United Kingdom (UK), have implemented a windfall profits tax on oil and gas companies. The UK collected over \$1.7 billion in its first year and in 2023, the UK extended the tax to 2029 and increased the rate.<sup>61</sup> However, the UK tax contains loopholes that Canada should not emulate.<sup>62</sup> Many European Union countries have also implemented a windfall profits tax.<sup>63</sup>

56 <https://www.iisd.org/articles/deep-dive/fossil-fuels-drive-inflation-canada>

57 <https://policyalternatives.ca/newsroom/news-releases/your-inflation-dollars-may-not-be-going-where-you-think-report>

58 <https://www.nationalobserver.com/2024/04/16/opinion/time-oil-and-gas-industry-pay-climate-pollution>

59 <https://www.pembina.org/pub/oilsands-waiting-launch>

60 <https://www.iisd.org/articles/insight/ending-canada-support-fossil-fuels>

61 <https://www.bbc.com/news/uk-scotland-scotland-business-68489807>

62 <https://neweconomics.org/2023/11/the-windfall-tax-was-supposed-to-rein-in-fossil-fuel-profits-instead-it-has-saved-corporations-billions>

63 [https://www.europarl.europa.eu/RegData/etudes/STUD/2023/740076/IPOL\\_STU\(2023\)740076\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/740076/IPOL_STU(2023)740076_EN.pdf)

The Parliamentary Budget Officer has estimated that a 15% windfall profits tax on just seven of Canada's oil and gas companies could generate \$4.2 billion over five years that could quickly be invested in climate solutions.<sup>64</sup> The House of Commons Finance Committee also recently recommended that an excess profits tax be implemented.<sup>65</sup>

Canadians support making polluters pay their fair share. A March 2024 poll conducted by Leger reveals that the majority of Canadians support a tax on excess profits in the fossil fuel industry. Adopting a windfall profits tax is a fiscally responsible and socially equitable measure that will help mitigate the financial strain on Canadians and make polluters pay, while advancing climate action.

### Recommendations [FIN]:

1. Implement a windfall profits tax on the excess profits of oil and gas companies, aimed at raising at least \$4.2 billion over five years.
2. Allocate the revenue generated from the windfall profits tax towards initiatives aimed at alleviating the cost-of-living crisis and addressing the climate crisis.

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Photo: DSF



64 <https://www.pbo-dpb.ca/en/publications/LEG-2324-011-M--applying-canada-recovery-dividend-fossil-fuel-companies--application-dividende-relevance-canada-entreprises-secteur-combustibles-fossiles>

65 See recommendation 9, <https://www.ourcommons.ca/documentviewer/en/44-1/FINA/report-10/page-18>