



## COMPLEMENTARY CLIMATE ACTION RECOMMENDATIONS



### Phasing out Fossil Fuel Subsidies

Eliminating fossil fuel subsidies is a critical step to ensure a climate-safe future and transition to a low-carbon economy. These subsidies divert vital government resources away from other priority policy areas, such as healthcare, clean energy and just transition, whose importance has been highlighted by the COVID-19 crisis.

Canada has a longstanding commitment to phase out inefficient fossil fuel subsidies under the G20. Despite these commitments and strong public support for phasing out subsidies,<sup>11</sup> Canada remains the largest provider of subsidies to oil and gas production per unit of GDP in the G7<sup>12</sup> and the second largest provider of public finance to oil and gas in the G20.<sup>13</sup> Canada's progress on the G20 subsidy peer review with Argentina has been slow—past peer reviews have taken 12-18 months—and largely not transparent.<sup>14</sup>

In 2019 federal fossil fuel subsidies increased from the previous year to at least \$600 million,<sup>15</sup> not including tax provisions, subsidies for the Trans Mountain project, or subsidies resulting from credit support such as through Export Development Canada (EDC). EDC provides on average nearly \$14 billion in government-backed financial support to oil and gas companies each year.<sup>16</sup> EDC's new climate

change policy is not aligned with Canada's climate commitments, requiring only a 15% decrease of its exposure to the most carbon intensive sectors. This year, EDC's total contribution to supporting oil and gas will likely be much higher, given its role in the COVID-19 response.<sup>17</sup>



Photo: Sippakorn Yamkasiakorn

11 Environmental Defence. (2018). #StopFundingFossils: New poll shows Canadians want to end public subsidies for oil and gas companies. Retrieved from <https://environmentaldefence.ca/report/stopfundingfossils/>

12 Whitley et al. (2018) G7 fossil fuel subsidy scorecard. Retrieved from: <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12222.pdf>

13 Tucker, B. and DeAngelis, K. (Oil Change International and Friends of the Earth U.S.), Still Digging: G20 governments continue to finance the climate crisis (2020) at p 20: <http://priceofoil.org/content/uploads/2020/05/G20-Still-Digging.pdf>

14 Office of the Auditor General of Canada. (2019). 2019 Spring Reports of the Commissioner of the Environment and Sustainable Development to the Parliament of Canada: Report 4—Non-Tax Subsidies for Fossil Fuels—Environment and Climate Change Canada. Retrieved from [http://www.oag-bvg.gc.ca/internet/English/parl\\_cesd\\_201904\\_04\\_e\\_43310.html](http://www.oag-bvg.gc.ca/internet/English/parl_cesd_201904_04_e_43310.html)

15 Corkal, Levin & Gass. (2020) Canada's Federal Fossil Fuel Subsidies in 2020. Retrieved from: <https://www.iisd.org/library/canada-fossil-fuel-subsidies-2020>

16 Hamilton, K., Levin, J. & Tucker, B. (2020) Export Development Canada's role in bailing out the oil and gas sector. Retrieved from: [https://environmentaldefence.ca/report/exportdevelopmentcanada\\_oil\\_bailout/](https://environmentaldefence.ca/report/exportdevelopmentcanada_oil_bailout/)

17 EDC (2019) Climate Change Policy. Retrieved from: <https://www.edc.ca/en/about-us/corporate/corporate-sustainability-responsibility/environment-people.html>

In the wake of COVID-19, calls from international leaders, such as the Executive Director of the International Energy Agency<sup>18</sup> and the Secretary-General of the UN<sup>19</sup> have urged countries to remove fossil fuel subsidies and put clean energy at the heart of stimulus plans. The response to COVID-19 requires unprecedented support for workers in industries such as the oil and gas sector, but this support should neither introduce nor entrench subsidies that hinder our urgently-needed transition away from fossil fuels. At least 53,000 jobs in the Canadian oil and gas industry have been lost since 2014 and the industry is no longer a stable source of job creation, pointing to an urgent need to support workers through just transition and economic diversification, for which subsidies hold us back.<sup>20</sup> Government support directed at creating employment in the

reclamation industry must tangibly uphold the polluter pays principle and not lock government into covering costly future remediation liabilities.

Lastly, as the government rolls out its national hydrogen strategy, critical decisions about Canada's future role in the emerging hydrogen economy must be made. The oil and gas sector is pushing for governments to invest in fossil fuel derived blue hydrogen as a way to search for a new market for their products as the world transitions away from oil. Blue hydrogen is not free of carbon emissions. There is no time for a "later" transition to green hydrogen. Climate change impacts are mounting at such a rate that all new government investments must be focused on rapid transition to carbon-free energy systems.

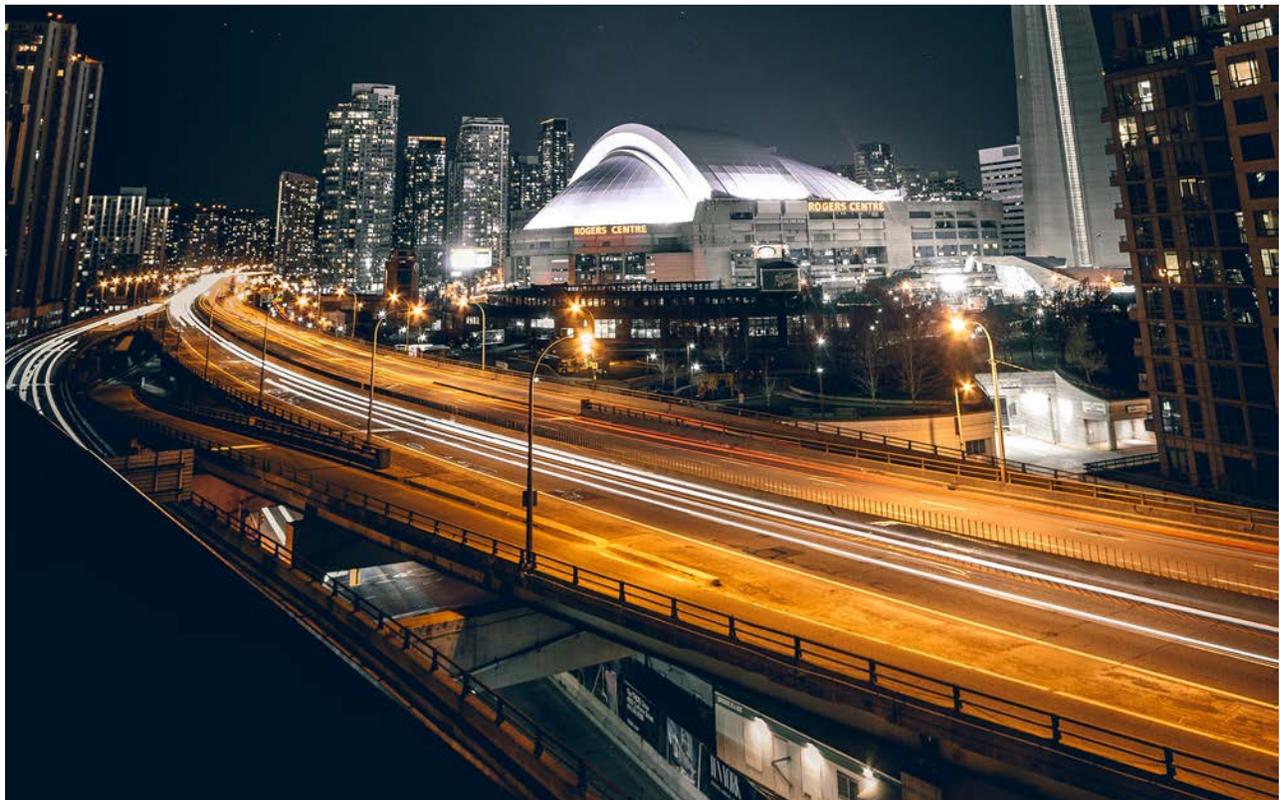


Photo: Warren Wong

18 Birol, F. (2020) Put clean energy at the heart of stimulus plans to counter the coronavirus crisis. Retrieved from:

<https://www.iea.org/commentaries/put-clean-energy-at-the-heart-of-stimulus-plans-to-counter-the-coronavirus-crisis>

19 UN News (2020) COVID-19 pandemic, an 'unprecedented wake-up call' for all inhabitants of Mother Earth

Retrieved from <https://news.un.org/en/story/2020/04/1062322>

20 Stand.earth (2020) Who Benefits? An investigation of foreign ownership in the oil sands. <https://www.stand.earth/sites/stand/files/report-foreign-ownership-oilsands.pdf>



## RECOMMENDATIONS:

- Commit to not introducing new subsidies for fossil fuels, which includes ensuring that financial support for hydrogen is prioritized for green, not blue (fossil fuel-based) hydrogen. [Finance, NRCan, ISED, ECCC]
- End Export Development Canada's support for fossil fuels in the short term (including through the Canada Account) and ensure their new climate change policy aligns EDC's entire portfolio with Canada's climate commitments. [Finance, GAC]
- Complete a transparent G20 peer review, using internationally agreed upon definitions and robust criteria for "efficiency" that align with Canada's climate commitments. [Finance, ECCC]
- Develop a roadmap to meet or exceed Canada's commitment to phase out inefficient fossil fuel subsidies by 2025, exploring opportunities to redirect revenue to COVID-recovery, just transition needs and renewable energy acceleration. [Finance, ECCC]
- Include fossil fuel subsidy reform as a key element of focus in Canada's next nationally determined contribution (NDC) to the Paris Agreement. [ECCC]
- Transparently release information on quantified amounts of all federal fossil fuel subsidies on an annual basis. Provide transparent and detailed data on COVID-19 support provided to fossil fuel producers, including by federal credit agencies. [Finance]
- Impose strict polluter pay conditions on any environmental remediation aid in order to maximize jobs and ensure industry pays for the cleanup of its operations. [Finance, NRCan]
- Work with the provinces and territories to address fossil fuel subsidies at the subnational level. [Finance, ECCC]

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