

TWO STEPS BACK:

How BC's fossil fuel subsidies lock in carbon emissions

COMMENTARY | November 2019

British Columbians may be surprised to learn that **in 2018, their government handed out \$830 million to the fossil fuel industry** – and that's just when you tally the information that is publicly accessible. Despite the fact that the province is already experiencing significant climate impacts, new subsidies continue to be announced. These subsidies both reduce spending in other areas – including a just transition away from fossil fuels – and lock in decades of carbon emissions.

On top of the \$830 million handed out last year, **the government has allowed companies to stockpile \$3.1 billion in outstanding royalty credits** – credits that the industry can claim back at a later date. This is foregone revenue that is being borrowed from future generations which could otherwise be invested in clean energy, healthcare, education, or other priorities.

What the frack?! What does BC subsidize?

BC's supports for oil and gas include everything from direct investments in the companies, paying for roads and electricity infrastructure, interest free loans on construction costs, special treatment under the province's carbon tax and providing the companies with discounted electricity prices.

The lion's share of the provincial subsidies have gone towards expanding the province's liquefied natural gas (LNG) sector. The biggest recipient in the industry is LNG Canada – a new carbon bomb put forward by a consortium comprised of Shell and various Asian gas companies. The **BC-LNG Canada agreement locks in subsidies for the next 20 years**, effectively erasing the ability of future governments to change their minds. LNG Canada could increase carbon pollution in B.C. by nine million tonnes per year—the equivalent of adding two million cars to the roads every year.



What are royalties?

Royalties are the public's rightful share of the revenues derived from publicly owned resources. Companies pay royalties to the provincial government for extracting natural resources from publicly-owned lands. Net royalty revenues in the BC budget have fallen from in excess of \$1 billion per year a decade ago to being in the range of \$140 to 160 million for the past four years, even though total BC gas production has increased by more than 60 per cent.

These subsidies lock in the very industry that will make it impossible for the province to meet its emission reductions targets. There is nothing clean about natural gas – in addition to its climate impacts, fracking threatens fresh water and poses serious threats to health.

Cleaning up industry's mess: BC spent \$56 million in 2019 to assist heavy industry to reduce emissions.

Rather than adopting a polluter pays' approach which forces those who cause the damage to bear these costs, BC's subsidies put taxpayers on the hook to clean up industry's mess. By taking on the cost of reducing emissions, we are not holding industry accountable. These same outcomes could be reached – with no public cost – by putting regulations in place.

Methane fiscal leaks: exempting methane emissions from the carbon tax is a tax break worth at least \$56 million per year to industry. Not only are these methane leaks a significant source of BC's greenhouse gas emissions, independent studies have shown they are likely significantly undercounted. As the LNG sector grows, so will the emissions, and the size of this subsidy. Though the agreement between the BC Green and New Democrat caucuses includes a clause to eventually expand the carbon tax to cover these fugitive emissions, nothing has come into effect as of yet.



Federal subsidies:

In addition to provincial subsidies, LNG benefits from financial support from the federal government as well, including specific tax breaks for the sector and direct spending. For example, the government agreed to a tariff exemption on imported steel at the request of LNG Canada: \$1 billion in foregone revenue. The federal government also spent \$275 million on gas turbines for the LNG Canada project. Notably an August 2019 agreement between BC and the federal governments provides a further subsidy of \$680 million to pay for the electrification of future LNG projects.

What kinds of subsidies does BC give the oil and gas industry?

The bulk of BC's fossil fuel subsidies go to the natural gas industry. It includes:



DIRECT INVESTMENTS
in the companies paying
for roads and electricity
infrastructure



SPECIAL TREATMENT
under the province's
carbon tax



INTEREST FREE LOANS
on construction costs



**DISCOUNTED
ELECTRICITY PRICES**

Despite this support, the public is getting less back:

ROYALTIES

↓ from **\$1 B -
\$160 M**

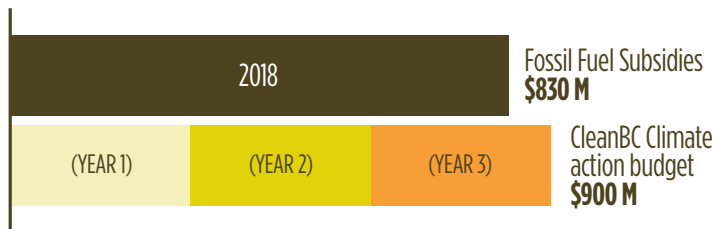
BC GAS PRODUCTION

↑ **more than
60%**

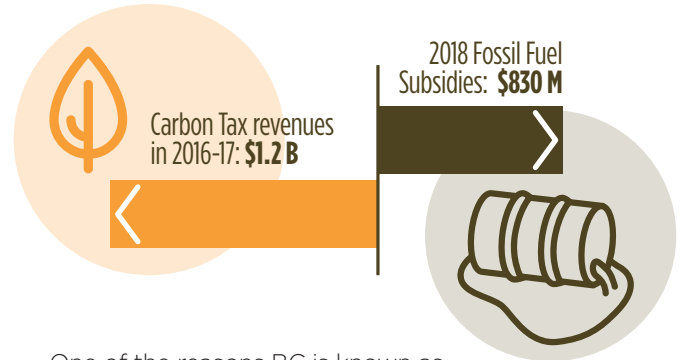
Royalties have fallen from \$1 billion per year in 2009 to \$140 to 160 million for the past four years, even though total BC gas production has increased by more than 60 per cent.



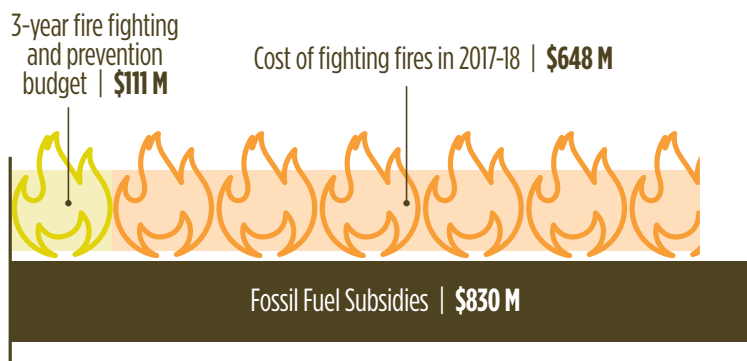
Let's put \$830 million in subsidies in context.



Earlier this year, **BC released its 2019 budget, which included investments into CleanBC**, the province's plan to reduce carbon pollution. How much was included for climate action in the province? \$900 million – over three years.

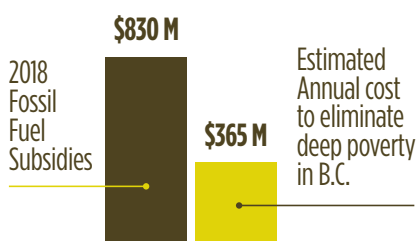


One of the reasons BC is known as a climate leader is because it's had a **carbon tax since 2008**. In 2016-17, the B.C. government took in \$1.2 billion from the carbon tax.

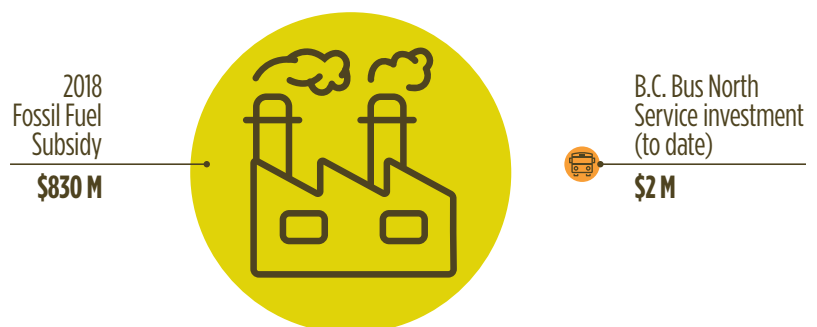


We know that subsidies to the fossil fuel sector lead to increased emissions. We also know **the province is struggling to tackle the impacts of climate change**. The 2019 budget included \$111 million over three years to fight and prevent wildfires. However, the province spent \$648 million fighting fires in 2017-18.

What could BC do instead with \$830 million?



The Canadian Center for Policy Alternatives estimated that **eliminating deep poverty in the province would cost approximately \$365 million a year**.



How about if just a tiny portion of this was spent on **fixing the province's transportation justice issues** – such as a lack of public transit options on the Highway of Tears? Though the BC government has stepped in to replace the hole left by Greyhound Canada, only \$2 million has been invested into the B.C. Bus North Service, which falls short of fixing the gap and leaves much of northern BC without service.



LACK OF TRANSPARENCY

Due to a lack of transparency, most tax exemptions can't be quantified – so the total amount spent propping up the industry is actually much greater than what is included here.

Subsidies stand in the way of BC's climate leadership

If any jurisdiction is well positioned to rapidly transition to a carbon neutral economy, it's British Columbia. But subsidies stand in its way.

To truly be a climate leader, BC must stop providing new subsidies. The province must commit to a thorough and transparent review of all of its financial supports to the industry and release this data publicly. The next step is to creation an action plan to phase these subsidies out.

BC'S FOSSIL FUEL SUBSIDIES

Learn more: Read the full report at
www.iisd.org/library/locked-in-losing-out

A REPORT BY:



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ADDITIONAL REFERENCES

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