Financial Support For Fossil Fuels

BACKGROUNDER
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environmental defence

The Current State of Federal Financial Support to the Oil and Gas Sector

Due to a lack of transparency and reporting, quantifying the extent of federal supports to the oil and gas sector is a difficult task. Federal tax deductions are not disclosed. There is no comprehensive inventory of direct spending by the government, and though spending announcements can be tracked, timelines for when these funds are spent are largely unknown.

Given these complexities, rather than focus on a specific year, the numbers presented below include recent or active spending by the government and crown corporations. Not all of this financial support for the production of oil and gas is acknowledged to be a subsidy by the government. However, this support does provide disproportionate advantages to the sector and undermines Canada's ability to tackle the climate emergency.

- Non-tax federal government spending: $3.3 billion (active programs)
- Federal tax subsidies: largely not quantifiable; at least $1 billion in tariff exemptions
- Export Development Canada: $12.45 billion in 2017-18, an additional $6.5 billion credit agreement for the Trans Mountain pipeline
- Trans Mountain Corporation: $1.6 billion
- Business Development Bank of Canada: $510 million
- Reimbursed Arctic exploration license deposits: $430 million

These numbers do not include externalities. A 2015 report by the International Monetary Fund found that, when externalities are included, Canada provided $63 billion in subsidies to the oil and gas sector that year.[1] Cleaning up Alberta's oil patch - including the 90,000 abandoned oil wells, toxic tailing ponds and ageing pipelines - could cost up to $260 billion.[2] To date, the industry has only committed 1.6 billion to these efforts - leaving taxpayers on the hook for the rest of it. According to the Canadian Medical Association, the burning of fossil fuels is responsible for $53.5 billion in health-related costs each year in Canada.[3]

What Progress Has Been Made?

Canada first announced its commitment to phase out fossil fuel subsidies in 2009. This was subsequently modified to include a 2025 deadline. Despite this long standing commitment, Canada has still not announced a clear path towards achieving this promise. In 2018, Canada committed to a G20 peer review of its fossil fuel subsidies with Argentina to identify and reform inefficient fossil fuel subsidies. This process has been slow and largely not transparent. Past peer reviews have taken 12-18 months. We are nearing the 18 month mark now and little progress has been made. As part of the self-report portion of the peer review, Environment and Climate Change Canada (ECCC) conducted consultations to gather feedback on their approach to phasing out inefficient non-tax fossil fuel subsidies. Though this increased transparency is positive, we have serious concerns with the definitions and methodology proposed by ECCC in their draft framework, and how these are being used to circumvent meaningful action on phasing out non-tax support to fossil fuels.[4] For example, ECCC's initial inventory found only four subsidies, and deemed them all to be efficient. Though Finance Canada has reformed several tax subsidies since 2011, the department has not released anything publicly on their approach to identifying and eliminating remaining tax subsidies. The Auditor General of Canada also expressed concerns the lack of transparency on the part of the federal government in tracking and reporting on subsidies.[5]

What needs to be done?

Eliminating fossil fuel subsidies is a critical step to ensure a climate-safe future and transition to a low-carbon economy. Not only do these subsidies undermine existing action on climate change, they also divert important government resources away from areas such as healthcare, education, social services – and a just transition. Therefore, we recommend that the government:

- Publicly release information on government spending on all federal fossil fuel subsidies and financial support to the sector.
- Commit to an expedited and transparent G20 peer review - to be completed in 2020 - using internationally agreed upon definitions that align with Canada's climate commitments.
- Recognize the urgency of the climate emergency by accelerating the timeline for the elimination of fossil fuel subsidies. Commit to full fossil fuel subsidy elimination by 2022 and the development of a roadmap to meet this commitment.
- Commit to not introduce new subsidies for fossil fuels, which includes not spending additional funds on the expansion of the Trans Mountain pipeline.
- Commit to ending Export Development Canada's financing and support for fossil fuels by 2020 and ensure their climate change policy aligns its investments with Canada's climate commitments.
- Work with the provinces and territories to address fossil fuel subsidies at the sub-national level.

Breaking Down the Numbers

Reimbursed Arctic exploration license deposits: $430 million[6]

In 2016, the government announced a moratorium on new licenses for offshore oil drilling across Arctic waters. The moratorium had no impact on existing exploration licenses. Many of these licenses were set to expire, and oil companies would have been legally obligated to pay their license deposits to the government. However, the government has now prohibited work on the licenses in the Beaufort Sea and has also refunded these license deposits to the companies.[7] This is foregone revenue that the government had no obligation to refund. The companies include Imperial Oil, BP, ConocoPhillips Canada, Chevron Canada and Franklin Petroleum Canada.

Active Federal Government Programs

For some of the below programs, it's not clear when the spending happened, but all of them are listed as currently active programs. Therefore, not all of this spending necessarily occurred in the 2017-18 timeframe. Similarly, not all of these programs listed all of their projects, so this is not a complete inventory. Greater transparency is needed to properly quantify spending.

Though many of the funds listed here may reduce GHG emissions or improve environmental outcomes, they still represent a transfer of public funds to private oil and gas companies. The government should be relying on regulations to achieve these same outcomes, and companies should be investing their own funds into improving their performance.

Program	**Amount**	**For What**
Canadian Emissions Reduction Innovation Network	$6 Million	The program will support targeted infrastructure investments at existing facilities or sites and aims to accelerate the development, validation and deployment of technologies that reduce oil and gas sector emissions.
Clean Growth Program	$153 million	Though the Clean Growth Program supports projects in mining and forestry as well as energy, the number here reflects the funds from this program that went towards projects in the oil and gas sector.
Cyber Security and Critical Energy Infrastructure Program	$2.42 million	Projects funded under this program are intended to strengthen the capability of the energy sector to prevent, prepare, respond to and recover from cyber threats.
Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative	$10.7 Million	The funds listed here went to natural gas refuelling stations, from 2017-2020.
Energy Innovation Program	$50 Million	Funding streams under this program support the development of "clean" oil and gas technologies.
Investing in Canada Infrastructure Plan	$107 Million	Funds included were invested into infrastructure to support the LNG industry. For example, the government is investing $83.6 Million to build a new transmission line to supply BC's natural gas industry with electricity from the controversial Site C Dam.

Low Carbon Fund	$28.2 million	Though the Low Carbon Economy Fund is intended to generate clean growth, some investments constitute fossil fuel subsidies. For example, the federal government handed out over $22 million to oil companies for a new steam turbine generator technology that will help produce power for its facilities at the Athabasca Oil Sands Project (AOSP).
Strategic Innovation Fund	$516 million	The Strategic Innovation Fund includes a variety of subsidies, including $275 million to support the Kitimat LNG project through the purchase of gas turbines and other infrastructure and $100 million for new petrochemical projects in Alberta, among others.
Sustainable Development Technology Canada	$83 million	SDTC had previously listed Unconventional Oil and Gas as a priority funding area, but current priorities have shifted to "climate change, clean air, clean water and clean soil". However, SDTC still provided funding to support various oil and gas industry innovations, such as plastic-to-fuel technologies, autonomous production technologies and other oil and gas demonstration projects.
Memorandum of Understanding with BC	$680 million	This joint fund between the federal government and the government of BC will support further electrification of LNG in BC and was announced in August 2019. It's unclear how this will be divided between those entities, and when spending will occur.
Oceans Protection Plan	$1.5 billion	Initiatives to ensure that Canada can respond quickly to oil spills in Canadian waters.
Federal aid package for Alberta oil industry	$150 million	Part of $1.65 billion aid package to tide companies over "until new crude export capacity is added" announced December 2018.[8] The rest of this funding is accounted for elsewhere in this inventory.
Total:	$3,286 Million	

Financing Provided by Crown Corporations

Corporation	Amount	For What
Business Development Bank of Canada	$10 Million	Breakthrough Energy Solutions Canada
	$500 million in credit	Part of aid package to Alberta, for smaller oil companies that are having cash-flow problems.
	Unknown	Industrial Innovation Venture Fund: A $250-million fund bringing innovation and digitization to legacy Canadian industries including agriculture, resource extraction and manufacturing.
	Unknown	$135-million industrial clean-tech and energy fund
Export Development Canada	$6.5 billion credit agreement	These loans were for the Trans Mountain Pipeline project, and came from EDC's Canada Account. Of this amount, $5 billion was for the acquisition and working capital, $1 billion was to finance the construction of the expansion project and $500,000 for the purpose of providing financial assurance as required by the National Energy Board.[9] Of this earmarked amount, EDC actually loaned $5.2 billion. The agreement, entered into August 2019, has since expired. However, a new credit agreement was executed July 30, 2019 which has a credit limit of $2.6 billion increasing to $4 billion in 2020, with a maturity of August 2023.[10]
	$1-billion in loans	Part of aid package for Alberta oil industry announced December 2018, for companies that want to invest in new equipment, expand their market or cover working capital needs.[11]
	$12.45 billion	Oil and gas financing provided to support for the operations of oil and gas companies both domestically and internationally in the 2017-18 period[12], as data is not yet available for this year. Between 2012 and 2017, EDC provided twelve times more support for oil and gas than for clean technologies, facilitating an average of more than CAD $10 billion in oil and gas finance per year.[13]

Trans Mountain Corporation	1.6 billion	Capital expenditures on the Trans Mountain Expansion Project in 2019.

Tax Subsidies

The Department of Finance administers a number of tax provisions that are specific to the oil, gas and mining sectors and that ultimately translate into the oil and gas industry reducing the share of income tax that it transfers to the federal government. The inability to quantify these subsidies underscores the need for greater transparency.

Program	**Amount**	**For What**
Tariff exemptions	$1 billion	Tariff exemption for LNG Canada and Woodfibre LNG on imported steel modules.[14]
Flow-through shares	Not quantifiable	Flow-through shares are an authorized tax shelter arrangement that allows a corporation to transfer certain unused tax deductions to equity investors.
Accelerated Investment Incentive	Not quantifiable	Allows companies to immediately write off the full costs of new machinery and equipment. Projected at $3.7 billion for 2019[15], but this is not broken down by industry (though fund was described by Finance Minister as advantageous for oil and gas sector.)

Scientific Research and Experimental Development tax credits	Not quantifiable	Qualifying companies can claim expenditures on research and development activities and can also carry forward credits to future years. SR&ED credits amounted to over $3.2 billion in 2018-19.[16] Though many of the credits are claimed by oil and gas companies, based on available information it is not possible to determine what portion.
Accelerated Investment Incentive	Not quantifiable	Allows companies to write off higher amounts of newly acquired capital assets. Although the measure applies to all sectors of the economy, it includes specific provisions to raise the amount claimable for oil and gas property expenses. This measure was introduced in fall 2018.
Canadian exploration expense deduction claims	Not quantifiable	
Canadian development expense deduction claims	Not quantifiable	
Oil and gas property expense deduction claims	Not quantifiable	
Foreign resource expense deduction claims	Not quantifiable	
Accelerated capital cost allowance – Liquefied Natural Gas, Eligible liquefaction equipment	Not quantifiable	Set to expire in 2025.

Accelerated capital cost allowance – Liquefied Natural Gas, Related buildings	Not quantifiable	Set to expire in 2025.

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