Budget 2023: Will this be the budget to eliminate fossil fuel subsidies?

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BACKGROUNDER
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environmental defence

What Environmental Defence is looking for in the 2023 Federal Budget

- **An end to fossil fuel subsidies**. In 2022, the federal government provided at least **$20.215 billion** in financial support to oil and gas companies (more below). The Government of Canada has committed to ending fossil fuel subsidies this year. The federal budget would be an ideal moment to lay out a clear roadmap and framework to ensure that promise is met. In addition, Budget 2023 should eliminate existing tax breaks, as President Biden did earlier this month in his proposed budget plan[1]. Tax breaks for oil and gas companies in Canada results in nearly two billion in foregone revenue each year[2], though due to a lack of transparency, those numbers were not included in this year's 2022 subsidies tally.
- **No subsidies for false solutions (CCUS, fossil-derived hydrogen).** This means that the proposed hydrogen investment tax credit should only be made available for hydrogen produced from renewable energy, based on the recommendations of over 100 academics and 55 environmental and health organizations[3]. Similarly, the proposed carbon capture, utilization and storage (CCUS) tax credit should not be made available to oil and gas companies, a recommendation made by over 400 of Canada's leading academics and experts ahead of Budget 2022)[4]. In addition, there should be no funding made available for CCUS, for example through the Canada Growth Fund.
- **Aggressive spending on renewable energy, electricity transmission and energy efficiency**, on the scale necessary for Canada to achieve a zero emissions electricity grid by 2035. This means additional spending needs to be included in Budget 2023 beyond the clean technology investment tax credit.

[1] The White House (2023) FACT SHEET: The President's Budget Cuts Wasteful Spending on Big Pharma, Big Oil, and Other Special Interests, Cracks Down on Systemic Fraud, and Makes Programs More Cost Effective. Available: https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/09/fact-sheet-the-presidents-budget-cuts-wasteful-spending-on-big-pharma-big-oil-and-other-special-interests-cracks-down-on-systemic-fraud-and-makes-programs-more-cost-effective/

[2] Office of the Parliamentary Budget Officers (2021) Energy sector and agriculture: federal revenue forgone from tax provisions. Available: https://www.pbo-dpb.ca/en/publications/RP-2122-022-M--energy-sector-agriculture-federal-revenue-forgone-from-tax-provisions--secteur-energie-agriculture-recettes-auxquelles-renonce-gouvernement-federal-titre-certaines-disposi

[3] Environmental Defence Canada (2023) Letter from scientists and civil society: Prevent proposed hydrogen investment tax credit from becoming a fossil fuel subsidy. Available: https://environmentaldefence.ca/wp-content/uploads/2023/02/Letter-to-Min.-Freeland_-Hydrogen-Tax-Credit_Feb-2023.pdf

[4] Maclean, J. & Hoicka, C. (2022) Letter from scientists, academics, and energy system modellers: Prevent proposed CCUS investment tax credit from becoming a fossil fuel subsidy. Available: https://www.researchgate.net/publication/363485567_Letter_from_scientists_academics_and_energy_system_modellers_Prevent_proposed_CCUS_investment_tax_credit_from_becoming_a_fossil_fuel_subsidy

The context behind Environmental Defence's Budget 2023 ask

Fossil Fuel Financing in 2022: $20.215 billion

Each year, Environmental Defence produces a tally of how much financial support has been provided to fossil fuels by the federal government and federal Crown corporations, including direct grants, tax breaks, loans and loan guarantees. For 2022, we were able to track **$20.215 billion in financial support provided by the federal government**. This was higher than the previous two years, which totalled $8.6 billion and $18 billion respectively.

2022's total includes

- **$12 billion on the TransMountain expansion pipeline**, including a $10 billion loan guarantee. The project is now expected to cost $30.9 billion[5], an astronomical increase over the initial construction cost estimate by Kinder Morgan of $5.4 billion. It has become increasingly clear that Trans Mountain cannot generate the cash flow necessary to repay the debt owed to Canadians. As a result, the debt owed to Canadian taxpayers will likely be written off[6].
- **$7.755 billion in public financing through crown corporation Export Development Canada.** This includes a $500 million loan to the Coastal GasLink Pipeline, $700 million for Enbridge US, and at least $442 million of this went to directly support the exploration and production of oil and gas, including a loan guarantee of up to $75 million for Parex, a Canadian company involved in fracking operations in Colombia and implicated in human rights violations[7].
- **$300 million for a fossil hydrogen project** through the Net Zero Accelerator, a $8 billion funding program run by Innovation, Science and Economic Development Canada (ISED) which still lacks any climate criteria for funding decisions.
- **$110 million in direct transfers from government departments which violate the Polluters Pays Principle** by paying oil and gas companies to reduce their emissions and environmental mess. Environmental outcomes can be better achieved – at no cost to taxpayers – through strong regulatory frameworks, including the proposed cap on emissions from the oil and gas sector and methane regulations, that ensure oil and gas companies are doing their fair share.
- For the full list of subsidies, visit our tracker: https://environmentaldefence.ca/federal-fossil-fuel-subsidies-tracking/

[5] Trans Mountain (2023) Trans Mountain Corporation Provides Update on the Expansion Project. Available: https://www.transmountain.com/news/2023/trans-mountain-corporation-provides-update-on-the-expansion-project

[6] Allan, R. (2022) TRANS MOUNTAIN: Compromised viability to cost taxpayers more than $17 billion. West Coast Environmental Law. Available: https://www.wcel.org/sites/default/files/publications/2022_tmx_report-min.pdf

[7] Patterson, B. (2019) Calgary-based Parex Resources Inc. seeks to frack in Colombia amid human rights concerns. Peace Brigades International. Available: https://pbicanada.org/2019/11/15/calgary-based-parexresources-inc-seeks-to-frack-in-colombia/

Implications from the Inflation Reduction Act (IRA): Canada lags behind the US on renewable energy spending, not carbon capture

Since the United States passed the Inflation Reduction Act (IRA) — the largest investment in emissions reduction in US history — the oil and gas industry in Canada has been lobbying for more subsidies for carbon capture, utilization and storage (CCUS), in addition to the generous investment tax credit (ITC) that has already been secured. The Pathways Alliance wants $50 billion in taxpayer subsidies[8], claiming that Canada must align with the US on tax credit levels or fall behind[9]. However, the Canada-US "alignment" problem is around renewable energy, not CCUS. The IRA offers much less financial support for CCUS than what is already on the table in Canada[10]. Of the $499 billion CAD allocated through the IRA, just $4.3 billion was earmarked for the CCUS tax credit: less than 1 per cent. In comparison, Canada's ITC will provide double that amount (CAD 8.6 billion) by 2030[11]. In addition, oil and gas companies in Canada can also access credits from Alberta's carbon pricing system (the Technology Innovation and Emissions Reduction (TIER) regulation) as well as the Clean Fuel Regulations credits.

Under the new IRA, the total amount of support being provided specifically to solar, wind and batteries ranges from $64 billion[12] to $161 billion[13]. As a result, IRA will double the amount of renewable and storage capacity on the US grid by 2030 and nearly quadruple capacity by 2035[14].

Meanwhile in Canada, direct federal spending on renewable energy remains low, consisting primarily of a $1.5 billion Smart Renewables and Electrification Pathways Program and a new 30 per cent clean technology investment tax credit expected to be finalized in Budget 2023. As a result, Canada is not deploying these technologies at anywhere near the pace required. For example, in order to ramp up solar and wind production sufficiently to decarbonise electricity production, the necessary investment has been estimated at $20 billion over the next five years[15].

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[8] Tuttle, R. (2021) What's the cost of cutting oilsands' carbon emissions? A cool $75 billion. The Financial Post. Available: https://financialpost.com/commodities/energy/oil-gas/oil-sands-carbon-cuts-come-with-60-billion-bill-loose-ends

[9] Potkins, M. (2022) 'Canada will get left behind': U.S. incentives for carbon capture could lure investment south. The Financial Post. Available: https://financialpost.com/commodities/energy/oil-gas/us-carbon-capture-incentives-investment-canada

[10] McKenzie, Janetta, and Scott MacDougall. 2023. Comparing Canadian and American financial incentives for CCUS in the oil sector. Canadian Climate Institute and Pembina Institute. Available: https://climateinstitute.ca/wp-content/uploads/2023/03/comparing-canadian-and-american-incentives-ccus-oil-sector.pdf

[11] Cameron, L. & Carter, A. (2023) Why Carbon Capture and Storage Is Not a Net-Zero Solution for Canada's Oil and Gas Sector. International Institute for Sustainable Development. Available: https://www.iisd.org/system/files/2023-02/bottom-line-carbon-capture-not-net-zero-solution.pdf

[12] Congressional Budget Office (2022) Cost Estimate. Available:https://www.cbo.gov/system/files/2022-09/PL117-169_9-7-22.pdf

[13] Committee for a Responsible Federal Budget (2022) CBO Scores IRA with $238 Billion of Deficit Reduction. Available: https://www.crfb.org/blogs/cbo-scores-ira-238-billion-deficit-reduction

[14] Levin, A. & Ennis, J. (2022) Clean Electricity Tax Credits in the Inflation Reduction Act Will Reduce Emissions, Grow Jobs, and Lower Bills. NRDC. Available: https://www.nrdc.org/resources/clean-electricity-tax-credits-inflation-reduction-act-will-reduce-emissions-grow-jobs-and

[15] Lee, M., Brouillette, C. & Mertins-Kirkwood, H. (2023) Spending What it Takes: Transformational climate investments for long-term prosperity in Canada. Canadian Centre for Policy Alternatives & Climate Action Network – Réseau action climat (CAN-Rac) Canada. Available: https://climateactionnetwork.ca/resource/spending-what-it-takes-transformational-climate-investments-for-long-term-prosperity-in-canada/

No Subsidies for False Solutions

Subsidizing CCUS for the oil and gas sector, as well as fossil hydrogen, diverts significant financial resources from proven, reliable and more affordable climate solutions that are available on the timeframes required to mitigate climate change, including renewable energy, electrification and energy efficiency.

Despite decades of research, CCUS is still unproven at scale, incredibly expensive and has a track record of under performance and outright failure[16]. Even if CCUS functioned as promised, it does not address downstream emissions (emissions created when fossil fuels are burned, for transportation or heating, which accounts for 80 per cent of the emissions from oil and gas products) or the significant methane leakage from the production and distribution of oil and gas.

Fossil derived hydrogen – even paired with carbon capture and storage – provides no climate benefits and is not a climate solution. Blue hydrogen can be even worse for the climate than burning coal or fossil gas directly[17].

Oil and Gas Company Profits Versus Spending

Of every dollar of inflation over the last two years in Canada, 25 cents of that has gone to oil and gas and mining extraction profits[18]. Oil and gas companies are getting rich from inflation, raking in huge profits[19], and funneling that money towards their shareholders[20].

[16] Levin, J. (2022) Buyer Beware: Fossil Fuels Subsidies and Carbon Capture Fairy Tales in Canada. Environmental Defence Canada. Available: https://environmentaldefence.ca/wp-content/uploads/2022/03/Buyer-Beware-FFS-in-2021-March-2022.pdf

[17] Howarth, R. & Jacobson, M. (2021) How green is blue hydrogen? Energy Science and Engineering. Available: https://www.actu-environnement.com/media/pdf/news-38015-etude-energy-science-engineeringhydrogene-bleu.pdf

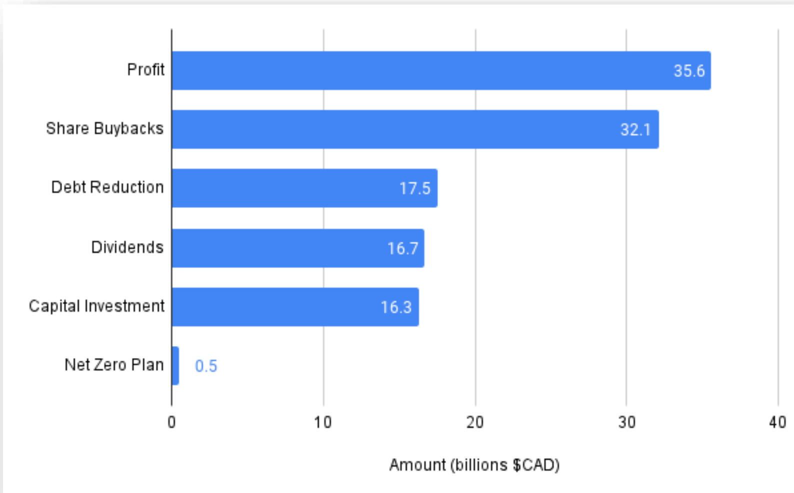
[18] Macdonald, D. (2023) Where are your inflation dollars going? Canadian Centre for Policy Alternatives. Available: https://policyalternatives.ca/newsroom/news-releases/your-inflation-dollars-may-not-be-going-where-you-think-report

[19] Gray-Donald, D. (2023) Canada's five biggest oil & gas companies had $38.3 billion in combined profits in 2022. Environmental Defence. Available: https://environmentaldefence.ca/2023/02/03/big-oil-is-posting-colossal-2022-profits/

[20] Al-Aini, E. & Gorski, J. (2023) Waiting to Launch 2022 year-end update. Pembina Institute. Available: https://www.pembina.org/pub/waiting-launch-2022-year-end-update

The Pathways Alliance – a coalition of the six companies that make up 95 per cent of the oilsands – spent 0.4 per cent of their total 2022 spending on their climate and environmental goals.

Pathways Alliance Profits and Spending in 2022[21]



Conclusion

The pathway to zero emissions and a climate–safe future does not include any subsidies or public financing for the oil and gas industry. Budget 2023 is an opportunity for Canada to finally deliver on its promise to stop funding fossil fuels.

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ABOUT ENVIRONMENTAL DEFENCE (**environmentaldefence.ca**): Environmental Defence is a leading Canadian environmental advocacy organization that works with government, industry and individuals to defend clean water, a safe climate and healthy communities.

[21] Oved, M. (2023) These oilsands companies raked in $35B last year. Now, they're asking for public money to help fight climate change. Toronto Star. Available: https://www.thestar.com/news/canada/2023/03/10/oil-companies-make-record-profits-but-still-want-help-paying-for-climate-change-plan. html