In 2023, as people across Canada faced a fossil fueled affordability crisis and climate disasters continued to ravage the country and the world, the Government of Canada continued providing financial support to an industry that we need to be winding down in order to avoid catastrophic levels of warming.

Key Points

- In 2023, the Government of Canada provided at least $18.553 billion in financial support to fossil fuel and petrochemical companies. This includes $8 billion in loan guarantees for the TransMountain expansion pipeline, $7.339 billion in public financing through crown corporation Export Development Canada, and over $1.3 billion for carbon capture and storage projects. Subsidies for carbon capture are likely to increase significantly in 2024.
- Over the last four years, the federal government's total financial support to the oil and gas industry was at least $65 billion. That level of support could have fully funded every major wind and solar project in Canada from 2019-2021 twelve times over.
- Although the Government of Canada has taken some steps to limit the financial support it provides to the oil and gas industry, more action is clearly needed. **Minister Freeland must include in Budget 2024 the immediate steps the government is taking to eliminate all of its financing to the oil and gas industry, as was promised back in 2021.**
- Budget 2024 should also deliver a new tax on the windfall profits of oil and gas companies. At a time when people across Canada are struggling with the cost of living and communities are dealing with the impacts of climate disasters, governments must hold big polluters accountable for the damage they are causing.
- The climate pollution created by oil and gas companies has massive costs, including health costs, property damage from extreme weather events, and decreased agricultural productivity due to changing weather patterns. In 2023 the cost to society of the pollution from oil and gas companies operating in Canada is an estimated $52 billion.
Fossil Fuel Funding in 2023

Each year, Environmental Defence produces a tally of how much financial support the federal government and federal crown corporations has provided to fossil fuels companies, including direct grants, tax breaks, loans, and loan guarantees. Due to a lack of transparency and public reporting, tracking subsidies the Government of Canada and its agencies provides to the oil and gas industry remains a difficult task.

In 2023, the Government of Canada provided at least $18,553 billion in financial support to fossil fuel and petrochemical companies. That is larger than the investment needed to upgrade Canada's existing commercial and residential buildings for energy efficiency and provide energy efficiency retrofits for homes in Indigenous communities across Canada.¹ These investments would help people facing affordability challenges by lowering energy bills. Instead, fossil fuel subsidies make it easier to produce, transport and sell the products – oil and gas – that are fueling the climate crisis in the first place.

Another better use of federal spending would be to train firefighters to deal with worsening wildfires. $18 billion could have trained 36,000 new community-based firefighters.²

The largest sources of federal support in 2023 were:

- $8 billion in loan guarantees for the TransMountain expansion pipeline (TMX)
  - The project would not have been able to proceed without government loan guarantees. Even if the loans were recouped, this would still qualify as a fossil fuel subsidy that has allowed massive expansion in oil and gas production.
  - The initial cost to complete the project was $5.4 billion. The latest estimates now forecast the expansion to cost over $34 billion - and it could go higher.³
  - It has become increasingly clear that TMX 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.⁴

- $7.339 billion in public financing through the crown corporation Export Development Canada
  - Export Development Canada (EDC) is a crown corporation. EDC provides financing, often at subsidized rates, to Canadian companies or companies buying Canadian services and products.
  - Two of the larger transactions in 2023 included $300 million for NOVA Chemicals Corporation, a petrochemical company, and $200 million for Enbridge.
- $1.3 billion for carbon capture projects through the Canada Growth Fund as well as Natural Resources Canada and the Canada Infrastructure Bank
  - Most of this comes through one transaction by the Canada Growth Fund, a new program meant to support clean energy projects. The project being subsidized is a fossil gas power plant in Alberta, which is being equipped with carbon capture technology.\(^5\)

Appendix A provides a complete list of subsidies and supports.

Figure 1: Fossil Fuel Funding in 2023

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Environmental outcomes can be better achieved – at no cost to taxpayers – through strong regulations, 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 to reduce their emissions.

**Fossil Fuel Funding Over the Past Four Years**

Over the last four years, the total amount of financial support to the oil and gas sector from the federal government was at least $65 billion.

Figure 2: Federal Fossil Fuel Subsidies by Year
$65 billion could have fully funded every major wind and solar project in Canada from 2019-2021 twelve times over.\(^6\) It is ten times what the government has invested in climate change adaptation since 2015.\(^7\) Around half of that, $35 billion, is enough to double transit ridership across the country over the next 12 years and reduce emissions by 65 million tonnes.\(^8\)

**Subsidies for false solutions are set to keep increasing**

The Government of Canada is continuing to subsidize carbon capture and storage (CCS) and fossil hydrogen. This 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.

CCS relies on the flawed premise that we can continue burning fossil fuels indefinitely by capturing some of the carbon emissions from polluting facilities before they escape into the atmosphere. However, CCS does not address downstream emissions – emissions created when fossil fuels are burned, for transportation or heating –which accounts for 80 to 90 per cent of the emissions from oil and gas. CCS actually *increases* emissions, since most of the captured carbon is currently used to boost oil production.\(^9\) Despite decades of research and investments –over the last three decades governments and corporations around the world have poured over US$83 billion into CCS projects\(^10\) – CCS technologies have a terrible track record.\(^11\) The vast majority of proposed CCS projects never get off the ground. The few that do tend to vastly underperform.\(^12\) The cost of CCS implementation has not declined at all in 40 years, in contrast to renewable technologies like solar, wind, and batteries, which have fallen in cost dramatically.\(^13\)

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An International Energy Agency report highlights that CCS, currently the linchpin of many firms’ transition strategies, cannot be used to maintain the status quo.14 “Continuing with business-as-usual for oil & gas while hoping a vast deployment of carbon capture will cut the emissions is fantasy,” IEA executive director Fatih Birol said in late November.

A new report out of Oxford University finds that heavy dependence on CCS to reach net zero would be “highly economically damaging,” costing at least $30 trillion more than a route based primarily on renewable energy, energy efficiency, and electrification.15

While hydrogen can be produced using renewable energy to split water (a process called electrolysis), the vast majority of hydrogen is produced from fossil gas (so-called “natural gas”) – with huge emissions. The industry claims it can capture some of the emissions that occur during the production process through CCS. This is what’s referred to as blue hydrogen. However, recent studies suggest that blue fossil hydrogen is even worse for the climate than burning coal or fossil gas directly and conclude there is no role for fossil hydrogen in a carbon-free future.16

The fossil fuel industry is promoting both CCS and hydrogen as ways to prolong our dependence on their products, protect their profits and greenwash their image.17 Fossil fuel companies also see CCS and hydrogen as opportunities to ask for even more subsidies. The Pathways Alliance has been lobbying for $50 billion in taxpayer subsidies to cover their CCS costs.18

From 2000 to 2020, governments in Canada have spent a minimum of $5.8 billion subsidizing CCS. Those enormous subsidies resulted in a yearly capture rate of less than 4 MT (representing 0.05% of Canada’s emissions), most of which is used for enhanced oil production.19 Yet subsidies for false solutions, including carbon capture and storage (CCS) and hydrogen, are set to increase significantly in 2024 and over the next several years.

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According to Wood MacKenzie, Canadian subsidies for carbon capture are among some of the highest in the world and are already much higher than in the United States.\textsuperscript{20} This is largely due to new investment tax credits (although large funding programs that have been created to support “clean tech” also play a significant role, including the Canada Growth Fund, the Net Zero Accelerator, and programs run by the Canada Infrastructure Bank). The Government of Canada is finalizing a CCS investment tax credit as well as a hydrogen investment tax credit. Recent analysis from the Parliamentary Budget Analysis estimates that these two tax credits will collectively provide over $11 billion to carbon capture and hydrogen projects by 2028.\textsuperscript{21}

It is also worth noting that the CCS tax credit was opposed by over 400 of Canada’s leading academics and experts.\textsuperscript{22} Their recommendations were ignored by Minister Freeland. Similarly, Finance Canada also ignored the recommendation from over 100 academics that the hydrogen tax credit should not subsidize fossil hydrogen.\textsuperscript{23}


The Government of Canada has taken some important steps towards eliminating fossil fuel financing. These include the development of new rules ending international public financing as well as the rules ending inefficient fossil fuel subsidies, which commit the government to ensure that any existing or further support for the fossil fuel sector is aligned with Canada’s climate goal of keeping global temperature rise to below 1.5C degrees.\textsuperscript{24} While these new policies have set an important precedent, they have failed to significantly reduce the level of financial support Canada provides to the fossil fuel industry.

\textsuperscript{22} 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
This is because most of Canada’s financial support is provided by Export Development Canada (EDC). Although the government has ended the crown corporation’s international public financing, research from the Parliamentary Budget Office shows that around 80 per cent of EDC’s recent fossil fuel support flowed domestically rather than internationally.25

In 2021, the federal government committed to eliminating this financing. This commitment was reiterated last summer, when the government gave a deadline of fall 2024. Yet since that announcement, the government has not communicated either the steps that will be taken or any progress made to date. It is critical that the government signals that they are prioritizing this commitment. By Budget 2024, the Government of Canada must communicate its planned approach.

**Oil and Gas Profits and a Windfall Tax**

In 2022, according to Statistics Canada, oil and gas extraction companies in Canada made $269.9 billion in total revenue and $63 billion in profits.26 Although data for 2023 isn’t in, just four of the top oil companies in Canada (Cenovus, Imperial Oil, Suncor, and Canadian Natural Resources Ltd.) had a combined annual profit of over $25 billion last year. These outsized profits are driving the inflation crisis that is making life unaffordable for people across this country.27

Putting in place a tax on the massive profits of oil and gas companies could bring in billions of dollars. In 2022, the Government of Canada introduced a 15 per cent windfall tax on excess profits in the banking and insurance sectors (the Canada Recovery Dividend). Oil and gas companies were not included in this new tax. Recent analysis from the Parliamentary Budget Office estimated that applying the Canada Recovery Dividend to oil and gas profits in 2022 would have generated $4.2 billion in one year alone.28

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Only seven oil and gas companies would qualify for the tax, reflecting the concentration of wealth within a small segment of the oil and gas industry. Though the PBO analysis does not name the specific companies, based on last year’s profits, this list would likely include Canadian Natural Resources Ltd., Suncor Energy Inc., Imperial Oil Ltd., Cenovus Energy Inc., and Enbridge Inc.²⁹

Larger windfall taxes have been applied to excess profits of oil and gas companies operating across Europe, ranging from 25 per cent in the United Kingdom to 75 per cent in Ireland.³⁰

**Massive indirect subsidies: the costs of climate pollution**

The climate pollution created by oil and gas companies has massive costs, including health costs, property damage from extreme weather events and decreased agricultural productivity due to changing weather patterns. The Government of Canada has developed a tool to calculate these costs: the social cost of carbon.³¹ In 2023, the social cost of a ton of carbon was estimated to be $261. Given that the oil and gas industry’s yearly emissions are around 200 MT³² (which does not include downstream emissions), the cost to society of their pollution in 2023 would have been over $52 billion.

**A Big Break on Carbon Pricing**

Oil and gas producers pay among the lowest average carbon costs of any industry – and it’s threatening Canada’s climate targets. Canada’s approach to carbon pricing allows provinces to design their own systems for charging industrial emitters. Provinces like Alberta grant generous exemptions to oil and gas companies. These systems let oil and gas companies off the hook: around 80–90 per cent of emissions from the oil and gas sector are exempt.³³

These exemptions constitute an enormous fossil fuel subsidy. However, given that the approach varies widely by province, the exact amount is difficult to quantify, and these numbers are not included in subsidy inventories.\textsuperscript{34}

The significance of this subsidy can be better understood through a case study of Suncor—the oil and gas sector’s largest emitter. In 2020, Suncor’s emissions were 27 million tonnes (MT) of greenhouse gas pollution.\textsuperscript{35} If it had paid the full carbon price in 2020 – that which Canadians are paying – of $30 per tonne, that would have cost Suncor $830 million. Instead, Suncor only paid $59 million in 2020.\textsuperscript{36} If the emissions created when the oil and gas are burned were also included, the pollution caused by Suncor would be around 92 MT. That brings the costs of the company’s carbon pollution to $2.8 billion.

### Appendix A

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
<th>Amount</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada Growth Fund</td>
<td>A $15 billion independent and arm’s length public fund meant to provide subsidies for clean energy projects.</td>
<td>$1 billion</td>
<td><a href="https://financialpost.com/commodities/energy/canada-first-deal-guarantee-future-price-carbon">https://financialpost.com/commodities/energy/canada-first-deal-guarantee-future-price-carbon</a></td>
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<tr>
<td>Clean Fuels Fund</td>
<td>This program provides $1.5 billion over five years for 'clean' fuel production in Canada.</td>
<td>$1.6 million</td>
<td><a href="https://www.canada.ca/en/natural-resources-canada/news/2023/06/first-regional-energy-and-resource-table-collaboration-framework-for-accelerating-a-low-carbon-economy-released.html">https://www.canada.ca/en/natural-resources-canada/news/2023/06/first-regional-energy-and-resource-table-collaboration-framework-for-accelerating-a-low-carbon-economy-released.html</a></td>
</tr>
<tr>
<td>Energy Innovation Program - Carbon capture, utilization, and storage stream</td>
<td>This program provides $319 million over seven years into research, development, and demonstrations to</td>
<td>$32 million</td>
<td><a href="https://natural-resources.ca/science-and-data/funding-partnerships/opportunities/grants-incentives/energy">https://natural-resources.ca/science-and-data/funding-partnerships/opportunities/grants-incentives/energy</a></td>
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<th>Organization</th>
<th>Description</th>
<th>Amount</th>
<th>Website</th>
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<tbody>
<tr>
<td>Strategic Innovation Fund</td>
<td>This program supports the Clean Resource Innovation Network to help the oil and gas sector grow, create jobs, and reduce its greenhouse gas emissions.</td>
<td>$16.1 million</td>
<td><a href="https://financialpost.com/globe-newswire/crin-funds-an-additional-nineteen-projects-throug-h-the-oil-gas-technology-competitions">https://financialpost.com/globe-newswire/crin-funds-an-additional-nineteen-projects-throug-h-the-oil-gas-technology-competitions</a></td>
</tr>
<tr>
<td>Sustainable Development Technology Canada</td>
<td>A crown corporation that provides subsidies for &quot;clean technology&quot; that supports sustainable development.</td>
<td>$4.3 million</td>
<td><a href="https://www.sdtc.ca/en/">https://www.sdtc.ca/en/</a></td>
</tr>
<tr>
<td>Trans Mountain Pipeline</td>
<td>Financing for the TransMountain pipeline expansion is provided through the Canada Account, which Export Development Canada administers, but the Finance Minister decides what projects get financed.</td>
<td>$8 billion</td>
<td><a href="https://www.edc.ca/en/about-us/corporate/disclosure/reporting-transactions/canada-account.html">https://www.edc.ca/en/about-us/corporate/disclosure/reporting-transactions/canada-account.html</a></td>
</tr>
</tbody>
</table>
Tax Credits:
- Accelerated Capital Cost Allowance for LNG Canadian development expenses
- Canadian exploration expenses
- Canadian oil and gas property expense
- Flow through shares Foreign exploration and development expenses

There is no publicly available data on tax breaks received by oil and gas companies in 2023. Therefore, we have used data from the latest year on record. In 2021, companies reduced their federal tax payments by $1.8 billion in response to tax breaks.  

ABOUT ENVIRONMENTAL DEFENCE: 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. Visit [environmentaldefence.ca](http://environmentaldefence.ca) for more information.

For more information or to request an interview, please contact: [media@environmentaldefence.ca](mailto:media@environmentaldefence.ca)

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