Intelligence MEMOS

From: Ben Brunnen

To: The Honourable Steven Guilbeault, Minister of Environment and Climate Change, the Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance and the Honourable Jonathan Wilkinson, Minister of Energy and Natural Resources

Date: August 1, 2023

Re: **Reforming Canada's Fossil Fuel Subsidy Framework**

Canada has been focused on "eliminating inefficient fossil fuel subsidies" since 2009, and last week Environment and Climate Change Minister Steven Guilbeault released guidelines and an **assessment framework** for the future.

Federal budgets have seen successive removal of various oil and gas tax measures – one of the more recent being the curtailment of the Canadian Exploration Expense (CEE) in 2017. In fact, about 11 different **tax measures** were removed from 2003 to 2017 – many of which were changes to tax deductibility schedules for exploration and development expenses that would otherwise be considered standard in comparable manufacturing and mining industries.

According to Ottawa, inefficient fossil fuel subsidies have been **"eliminated"** in the words of then Environment Minister Catherine McKenna. So it should be no surprise that Mr. Guilbeault's July 24 announcement did not commit to phasing out any further "inefficient fossil fuel subsidies."

Perhaps more important, however, are the new criteria for future industry subsidies, including:

- Enabling significant GHG reductions in Canada or internationally,
- Supporting Indigenous economic participation in fossil fuel activities, and
- Supporting abated production processes/ projects that have a credible plan to achieve net zero emissions.

This is a good framework, as these criteria align with a number of current major upstream oil and gas projects:

- LNG produced on Canada's West Coast would result in up to **62 percent less** greenhouse gas emissions than coal when used to generate electricity. In fact, **displacing** coal with natural gas in global electricity generation could reduce emissions by up to 4,205 million tonnes (31 percent) annually.
- All **major LNG projects in BC** involve formal benefits agreements with Indigenous nations, and half involve Indigenous ownership negotiations or agreements.
- The Oil Sands Pathways Alliance is **advancing** a foundational carbon capture and storage (CCUS) project that has the potential to substantially reduce upstream oilsands emissions for the vast majority of the industry.

The challenge, however, is that Canada needs to be competitive in its approach and level of support offered to attract investment in these areas. Canada's CCUS funding commitments are **uncompetitive** relative to other jurisdictions such as US and Norway, and the regulatory approval process for **major energy projects** remains lengthy, burdensome, uncertain and uncompetitive.

Most concerning in the announcement is the commitment to "phasing out public financing of the fossil fuel sector" which "refers to financing beyond the scope of [the] fossil fuel subsidies commitment."

This is beyond the scope of subsidies and likely related to Messrs. Guilbeault and Wilkinson's G7 ministerial meeting **pledge** last April to "accelerate the phase-out of unabated fossil fuels in combustion applications."

Canada currently provides public financing of insurance or loan provisions to all industries through entities such as the Business Development Bank of Canada (BDC) and **Export Development Canada** (EDC). Removing access to this type of financial support for oil and gas companies disproportionately disadvantages them relative to other sectors, and hinders their ability to grow, increase productivity, create jobs and access new markets, which is **foundational** to our economic prosperity.

This is particularly short-sighted given the industry's economic **contribution**, its role in Indigenous economic reconciliation and its potential to reduce and/or displace global emissions.

Under any credible scenario, global oil and gas demand is expected to increase. The IEA **Stated Policy Scenario (STEPS)**, which is based on current policies in place, forecasts that by 2050 hydrocarbons will still comprise at least 62 percent of the energy mix, and oil and natural gas supply is expected to increase by 7.7 percent and 2.7 percent respectively.

Rather than disadvantage the industry, Canada needs to nurture its growth to the benefit of all Canadians and the global climate.

Some recommendations for Ottawa:

- Ensure the level support for eligible projects in the fossil fuels subsidy framework is competitive with other jurisdictions;
- Prioritize an effective, timely and predictable regulatory framework for advancing major energy projects in Canada, particularly those that align with the proposed federal subsidy framework such as BC LNG projects;
- Work with export allies such as the US and potential customers in Europe and Asia to credit the Canadian industry for displacing higher emitting energy sources, and thereby benefiting from the new fossil fuels subsidies framework; and
- Cease efforts to phase-out public financing of the fossil fuel sector, as this is beyond the scope of the government's existing fossil fuel subsidies commitment, and unfairly disadvantages the sector relative to others in the economy.

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