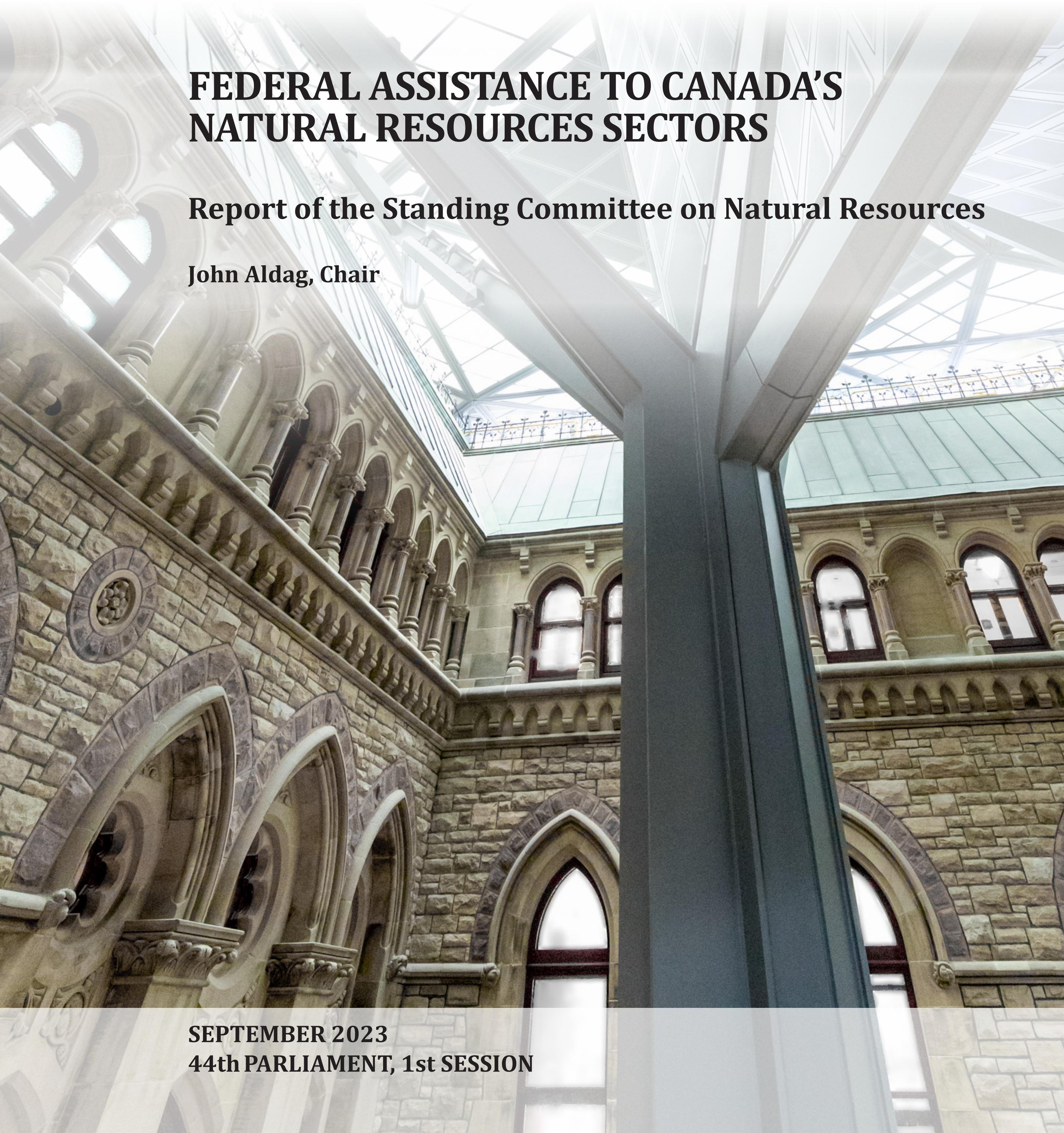
HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

FEDERAL ASSISTANCE TO CANADA'S NATURAL RESOURCES SECTORS

Report of the Standing Committee on Natural Resources

John Aldag, Chair



SEPTEMBER 2023
44th PARLIAMENT, 1st SESSION

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Chair

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NOTICE TO READER

Reports from committees presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON NATURAL RESOURCES

has the honour to present its

ELEVENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the committee has studied the federal assistance for various natural resources industries and has agreed to report the following:

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LIST OF RECOMMENDATIONS

As a result of their deliberations committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. Recommendations related to this study are listed below.

HOUSE OF COMMONS
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FEDERAL ASSISTANCE TO CANADA'S NATURAL RESOURCES SECTORS

INTRODUCTION

Natural resources make essential contributions to Canada's society and economy. Canadian natural resources power our homes and vehicles, provide the raw materials for building materials, electronic goods and many other products, and generate hundreds of thousands of well-paying jobs. Given their importance, natural resources are the focus of many federal programs and initiatives.

The House of Commons Standing Committee on Natural Resources (the Committee) has undertaken a comparative study of the Government of Canada's support for Canada's natural resources sectors. Over four meetings between 15 November 2022 and 24 November 2022, the Committee heard testimony on this subject from a range of government witnesses, trade associations and experts. The Committee thanks all the witnesses for their contributions and is pleased to present its report and recommendations to the Government of Canada.

OVERVIEW OF CANADA'S NATURAL RESOURCES SECTORS

Canada has three major natural resources sectors: energy, forests and mining. Collectively, these three sectors contributed 21% to Canada's nominal gross domestic product (GDP) in 2021.

The energy sector includes all the industries that extract and process the resources used to generate energy, including crude oil and natural gas as well as renewable sources like hydro, wind and solar power.[1] Altogether, the energy sector contributed approximately $216 billion, or 11%, to Canada's nominal GDP in 2021.[2] The forest sector consists of

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1 Natural Resources Canada (NRCan), *Energy Fact Book, 2022-2023*, p. vi.

2 NRCan sometimes categorizes coal mining, uranium mining and wood fuels data with the energy sector. In this report, coal and uranium mining are categorized with the mining sector, while wood fuels are categorized with the forest sector.

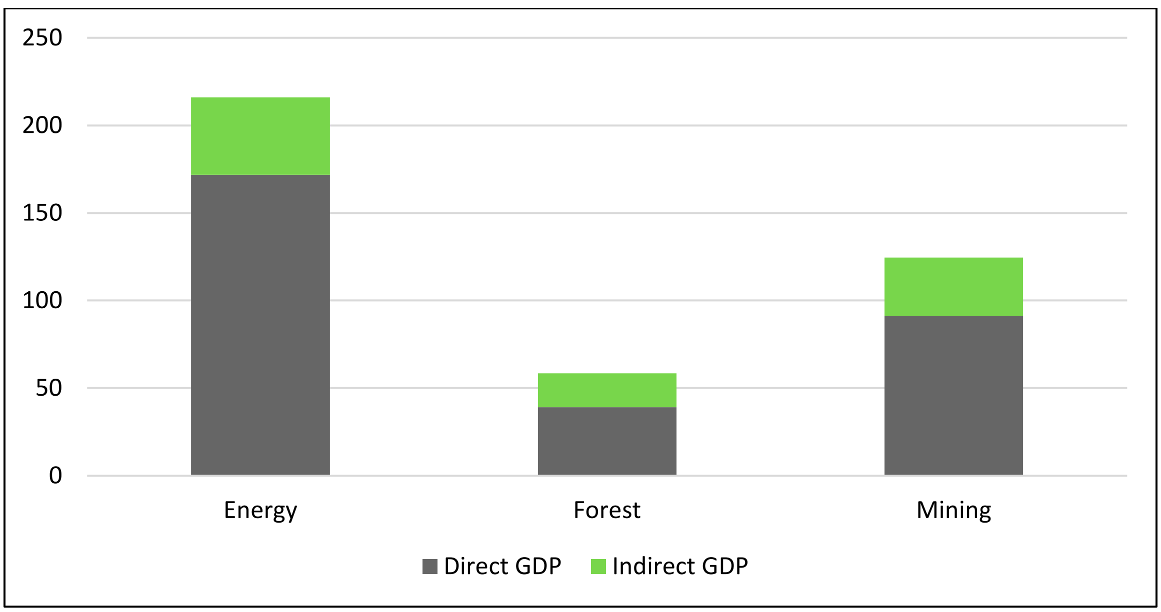
The dollar figures for each sector's contribution to gross domestic product (GDP) are from NRCan, Written response to Committee questions. The percentage contribution to GDP was then calculated using expenditure-based GDP data, seasonally unadjusted, in current prices. See: Statistics Canada, *Gross domestic product, expenditure-based, Canada, quarterly (x 1,000,000)*, Table 36-10-0104-01.

three main industries: forest operations, pulp, paper and the bioeconomy, as well as wood product manufacturing. The sector contributed approximately $58 billion, or 3%, to Canada's nominal GDP in 2021.[3] The mining sector—also known as the minerals and metals sector—also includes three main industries: mining, primary processing and metal product manufacturing. It contributed approximately $125 billion, or 7% to Canada's nominal GDP in 2021.[4]

Many jobs in Canada depend on natural resources. In 2021, the three sectors directly or indirectly employed more than 1.6 million people in Canada. Of these people, approximately 609,000 were directly or indirectly employed in the energy sector, 351,000 in the forest sector, and 665,000 in the mining sector.[5]

Figures 1–4 illustrate how Canada's natural resources sectors contribute to the country's GDP and employment.

Figure 1—Natural Resource Sectors Contributions to Canada's Nominal Gross Domestic Product (GDP) (billions of dollars)



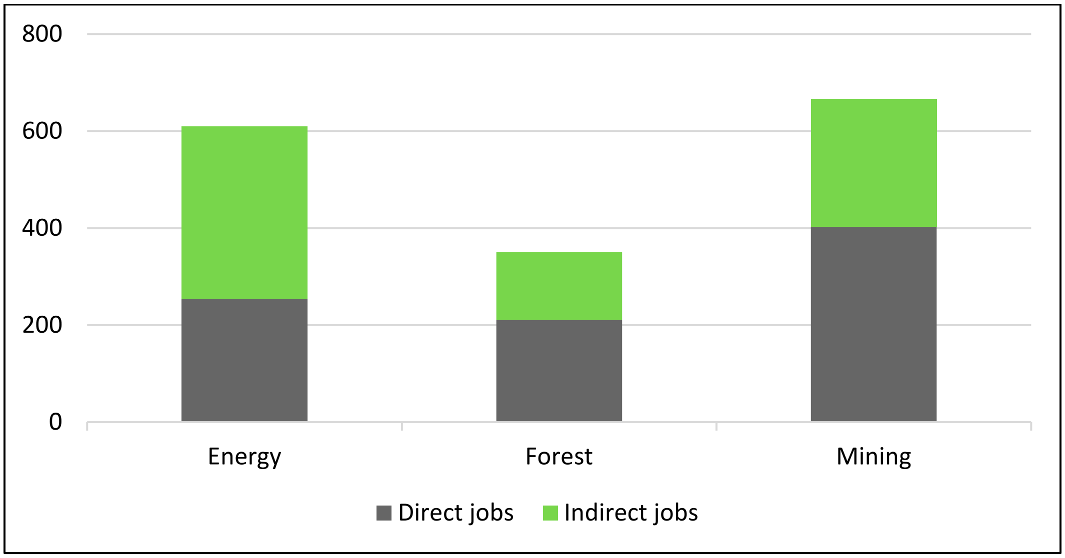
Source: Natural Resources Canada, written response to Committee questions.

3 Ibid.

4 Ibid.

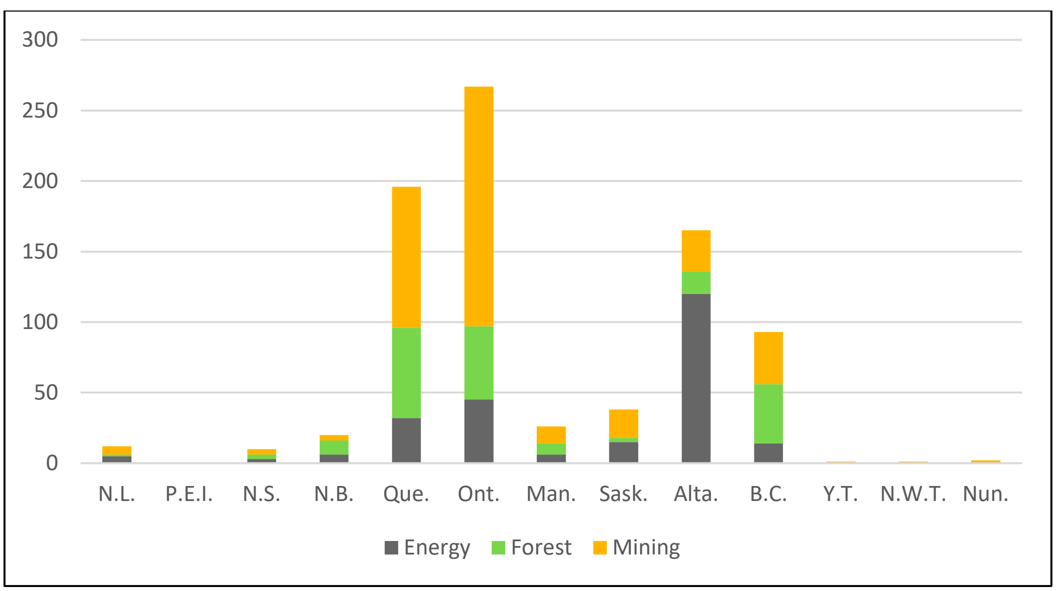
5 NRCan, Written response to Committee questions.

Figure 2—Employment in Canada's Natural Resources Sectors, 2021 (thousands of jobs)



Source: Natural Resources Canada, written response to Committee questions.

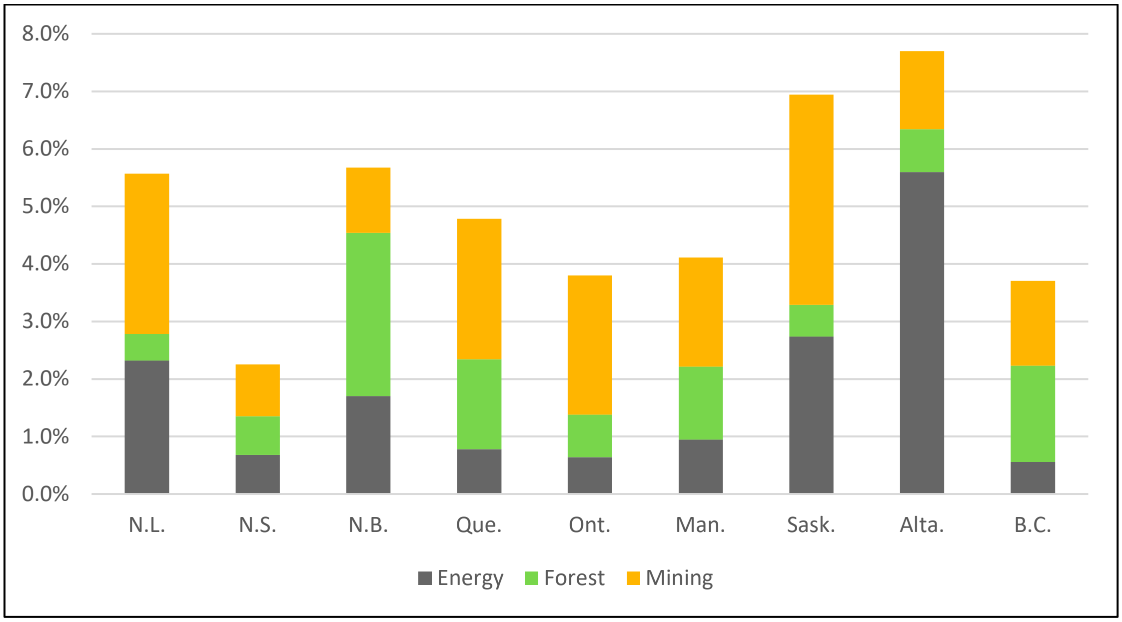
Figure 3—Direct Employment in Canada's Natural Resources Sectors by Province and Territory, 2020 (thousands of jobs)



Note: Data provided by Natural Resources Canada including the distribution of jobs by province and territory only available for direct employment in 2020.

Source: Natural Resources Canada, written response to Committee questions.

Figure 4—Direct Employment in Canada's Natural Resources Sectors by Province, 2020 (% of employment in all industries)



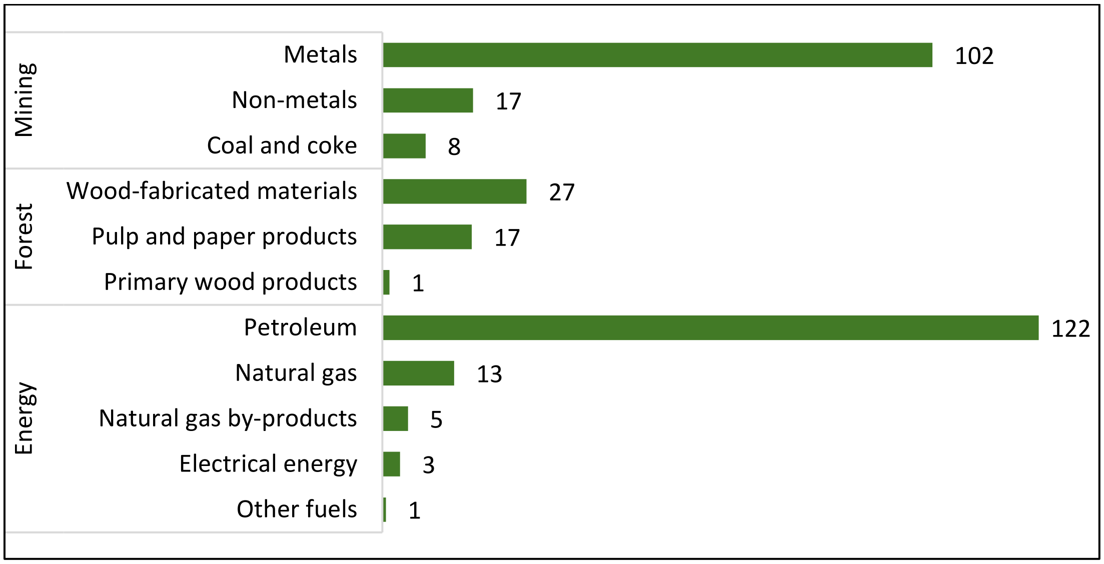
Notes: Data provided by Nautral Resources Canada including the distribution of jobs by province and territory only available for direct employment in 2020.

Due to insufficient data for Prince Edward Island, Yukon, Northwest Territories and Nunavut, the province and three territories are excluded from this figure.

Source: Natural Resources Canada, written response to Committee questions; and Statistics Canada, "Table 14-10-0023-01: Labour force characteristics by industry, annual (x 1,000)," Database accessed 13 June 2023.

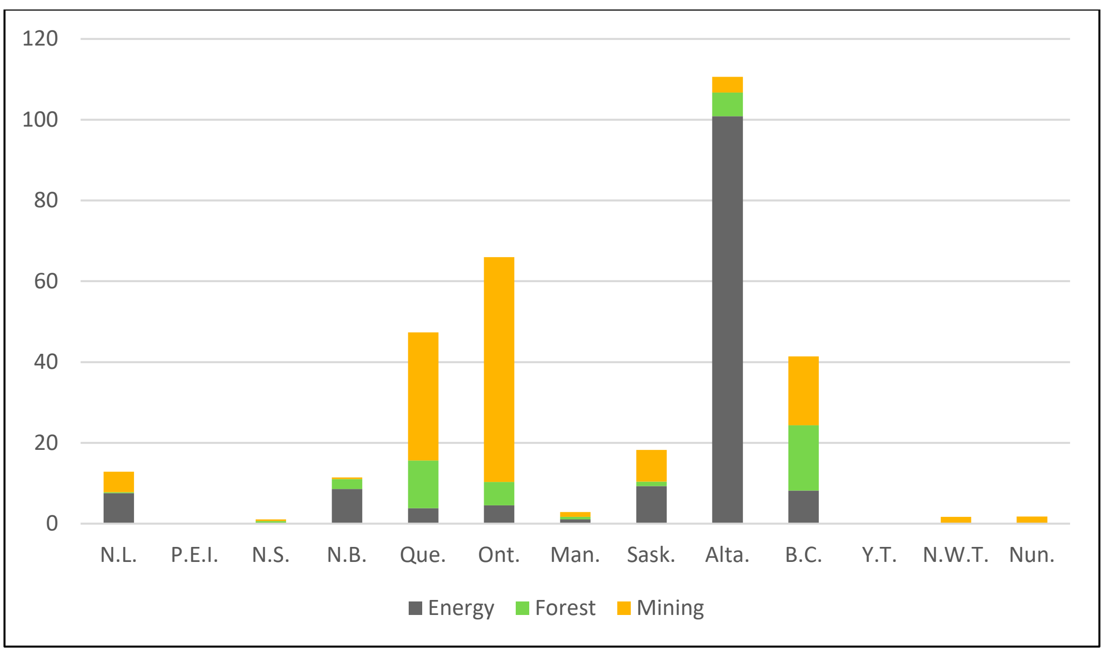
Natural resources and their by-products are also among Canada's most valuable exports. In 2021, the total value of energy sector exports was approximately $144 billion, while forest exports were worth roughly $45 billion and mining exports $127 billion. Figures 5–7 provide more detail on these numbers.

Figure 5—Domestic Exports of Natural Resources Products and By-products, 2021 (billions of dollars)



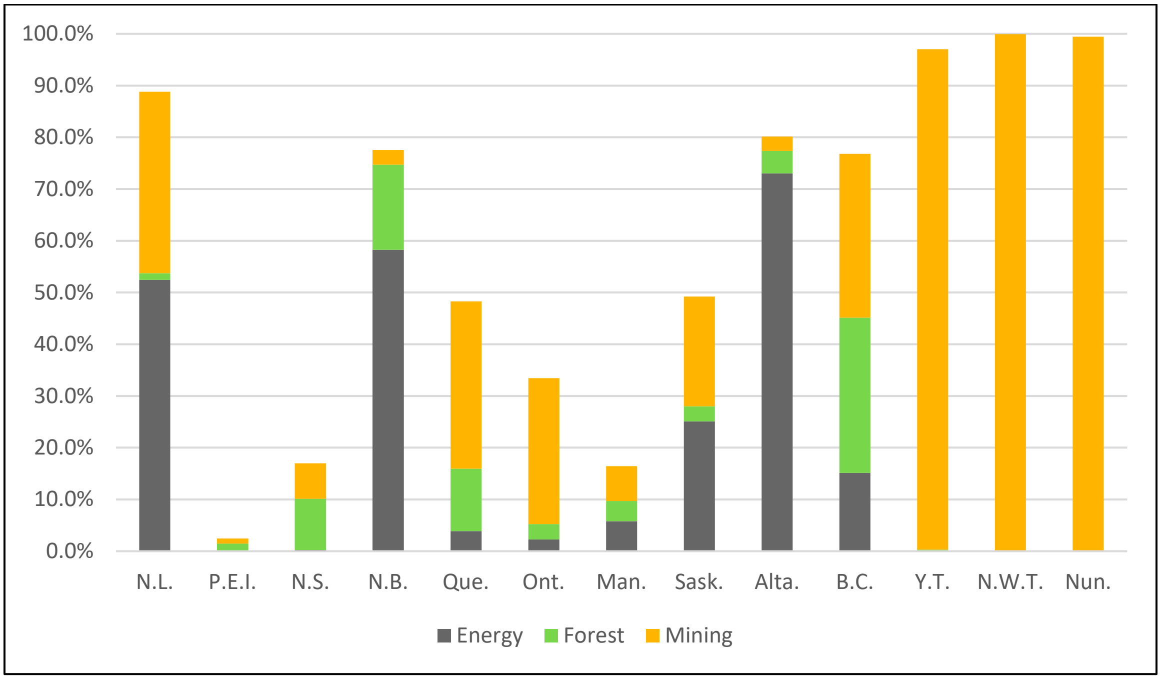
Source: Natural Resources Canada, written response to Committee questions.

Figure 6—Domestic Exports of Natural Resources Sectors by Province and Territory, 2021 (billions of dollars)



Source: Natural Resources Canada, written response to Committee questions.

Figure 7—Exports of Natural Resources Sectors by Province and Territory, 2021 (% of total product exports)



Source: Natural Resources Canada, written response to Committee questions; and Statistics Canada, "Table 12-10-0133-01: Canadian international merchandise trade by province and country, and by product sections, customs-based, annual (x 1,000)," Database, accessed 14 June 2023.

During the Committee's study, witnesses also referred to the growing size and importance of Canada's clean technology sector.[6] The Government of Canada defines clean technology as those goods and services whose main purpose is to remediate or prevent environmental damage, or goods and services that are less polluting or more resource efficient than similar products.[7] While not all clean technologies are relevant to natural resources, some parts of this sector—such as renewable energy generation—overlap directly with natural resources sectors and the federal assistance for these clean

6 House of Commons, Standing Committee on Natural Resources (RNNR), *Evidence*, 15 November 2022, 1715 (Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer, Export Development Canada); and RNNR, *Evidence*, 17 November 2022, 1105 (Joanne Pawluk, Director General, Business Innovation and Community Development, North, Prairies Economic Development Canada).

7 Government of Canada, *Clean Technology Data Strategy*.

technologies has eclipsed the support for other sectors like oil and gas.[8] For example, in its written response to the Committee, Export Development Canada remarked that in 2021, its business support for clean technologies, at $6.3 billion, exceeded that for oil and gas, at $4.4 billion.[9] In 2020, the clean technology sector contributed approximately $68 billion to Canada's GDP and represented 323,000 direct and indirect jobs.[10]

TYPES OF FEDERAL ASSISTANCE TO NATURAL RESOURCES SECTORS

Given the importance of Canada's natural resources sectors, the federal government supports the development of each sector in various ways. Governments have a range of tools for assisting economic sectors, such as providing financial assistance, conducting trade negotiations, providing advice, and undertaking research.

The Committee's study focused mainly on the Government of Canada's financial assistance to natural resources sectors. This report also focuses on financial assistance, which can be organized into three categories: tax expenditures, program spending, and financing by crown corporations.

Tax Expenditures

While the main purpose of the tax system is to raise revenue, it can also be used to achieve certain economic or social objectives.[11] Among other things, the Government of Canada uses the tax system to support Canadian industries through preferential tax rates, exemptions, deductions, tax credits and other measures. These measures are known as "tax expenditures" because they lead the government to forgo tax revenue.

A tax expenditure is defined as a departure from the basic features of the tax system, known as the "benchmark" tax system.[12] For this reason, the Assistant Deputy Minister of the Tax Policy Branch at the Department of Finance, Miodrag Jovanovic, explained

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8 RNNR, *Evidence*, 15 November 2022, 1715 (Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer, Export Development Canada).

9 Export Development Canada, Written response to Committee questions.

10 NRCan, *Energy Fact Book, 2022-2023*, pp. 56–57.

11 RNNR, *Evidence*, 15 November 2022, 1645 (Samuel Millar, Associate Assistant Deputy Minister, Economic Development Branch, Department of Finance).

12 Department of Finance Canada, *Report on Federal Tax Expenditures: Concepts, Estimates and Evaluations, 2022*.

that tax expenditures "would typically be seen more as a kind of subsidy or special assistance, if you will."

In recent years, the Government of Canada has modified tax provisions that apply to natural resources sectors, phasing out certain measures, such as the flow-through share for oil and gas and coal exploration, while introducing new ones.[13] According to Samuel Millar, Associate Assistant Deputy Minister of the Economic Development Branch at the Department of Finance, the Government of Canada's current objective for tax expenditures that apply to natural resources sectors is "facilitating Canada's transition to a net-zero economy." With this goal in mind, the federal government has introduced the following:

- a new investment tax credit for carbon capture, utilization and storage;
- a reduction of 50% in the federal tax rate on income derived from the manufacturing of certain net-zero technologies and clean energy production;
- a new enhanced mineral exploration tax credit for critical minerals; and
- a new refundable investment tax credit for clean technologies.[14]

Along with other members of the G20, Canada has agreed to eliminate inefficient fossil fuel subsidies, committing to do so by the end of 2023. However, as this report will discuss later, the Government of Canada has not yet finalized a definition of "inefficient fossil fuel subsidies."[15] Miodrag Jovanovic stated that this does not prevent the government from making decisions regarding tax provisions which are considered to be "inefficient subsidies," such as the elimination of flow-through shares.

The Parliamentary Budget Officer provided some testimony about the public costs of federal tax expenditures on fossil fuel industries, namely oil, natural gas and coal. Yves Giroux noted that his office prepared a report in 2021 that estimated that these tax

13 RNNR, *Evidence*, 15 November 2022, 1700 (Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch, Department of Finance).

14 RNNR, *Evidence*, 15 November 2022, 1645 (Samuel Millar, Associate Assistant Deputy Minister, Economic Development Branch, Department of Finance).

15 RNNR, *Evidence*, 15 November 2022, 1740 (Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch, Department of Finance).

measures reduced federal revenues by $2.4 billion in 2019, with an average reduction of $1.8 billion between 2015 and 2019.[16]

While Canada's natural resources sectors benefit from certain special treatments in the tax system, these sectors are also major sources of revenue for all orders of government in Canada. Heather Exner-Pirot, a Senior Fellow at the Macdonald-Laurier Institute, cited research from investment firm Peters & Co. finding that oil and gas companies would pay approximately $50 billion in tax and royalties to the federal and provincial governments in 2022.[17] Jean-François Samray, the President and CEO of the Quebec Forest Industry Council, said that in Quebec alone, forest products generated an estimated $220 million in revenue for the federal and provincial governments in 2021.

Program Spending

Many federal programs provide financial assistance to Canada's natural resources sectors. The Committee did not hear testimony that would allow it to make a comparative estimate of total federal program spending for each natural resources sector. However, witnesses representing federal departments offered various examples of programs that are specifically designed to support natural resources sectors, as well as some that are non-sector specific.

Natural resources sectors receive non-sector specific support from various departments and agencies. The Canada Growth Fund, to be capitalized with $15 billion over five years, represents a large potential source of federal assistance for natural resources: it will use investment instruments to catalyze private sector investment in low carbon projects and businesses and develop natural resources supply chains, among other goals. Jesse Fleming, Director General, Programs Directorate in the Department of the Environment highlighted two programs administered by Environment and Climate

16 Some of the measures examined in the Parliamentary Budget Officer's report have been or will be phased out by the end of 2023. In Budget 2022, the Government of Canada announced that it would phase out, by the end of 2023, tax provisions that allow oil, gas and coal firms to pass along certain tax deductions to their investors. See: Government of Canada, "Flow-Through Shares for Oil, Gas, and Coal Activities," *Budget 2022: Tax Measures: Supplementary Information*.

17 Federal and provincial/territorial governments in Canada receive direct revenues from energy industries through corporate income taxes, indirect taxes, crown royalties and crown land sales. See: *NRCan, Energy Fact Book, 2022–2023*, p. 14. Income earned by oil and gas corporations are subject to the federal tax rate of 15% and to a provincial or territorial tax rate, ranging between 11.5% to 16%. Royalty regimes vary for each province and territory and rates can range up to 45%. In general, royalty rates are calculated based on well productivity and wellhead price. See: EY, *Global oil and gas tax guide 2019*, "Canada,"; and KPMG, *Guide to oil and gas taxation in Canada*, May 2018.

Change Canada that support projects aimed at reducing greenhouse gas (GHG) emissions:

- the Low-Carbon Economy Fund (LCEF), which received a commitment of $2 billion over five years under Budget 2017 and an additional $2.2 billion over seven years under Budget 2022; and

- the Output-Based Pricing System Proceeds Fund (OPBS Proceeds Fund), which collected approximately $161.1 million in 2019 and $230.9 million in 2020 through proceeds of the federal Output-Based Pricing System.

While LCEF applicants may be from any sector, OPBS Proceeds Fund spending is directed toward industrial emitters and electricity facilities.[18]

Witnesses also mentioned the following sector specific programs:

- Energy: the Smart Renewables and Electrification Pathways Program, administered by Natural Resources Canada (NRCan), funds projects that deploy renewable energy and modernize Canada's electricity grid. At the time of the study, NRCan had signed agreements to fund 71 projects and five grants for engagement activities with Indigenous peoples.[19]

- Forest: the Government of Canada has committed $3.2 billion over ten years for the 2 Billion Trees program, also administered by NRCan. The trees planted by the program are intended to sequester carbon dioxide, helping Canada reduce its greenhouse gas emissions.[20]

- Mining: NRCan's Green Mining Innovation is a research and development program to improve the environmental performance of mines. The program supports projects developed in collaboration with academics,

18 RNNR, *Evidence*, 15 November 2022, 1750 (Marie-Josée Lambert, Acting Director General, Crown Investment and Asset Management, Department of Finance); and RNNR, *Evidence*, 15 November 2022, 1645 (Jesse Fleming, Director General, Programs Directorate, Department of the Environment).

19 NRCan, Written response to Committee questions.

20 RNNR, *Evidence*, 15 November 2022, 1535 (Daniel Dufour, Director General, Innovation Branch, Department of Natural Resources).

> provincial and territorial governments, non-governmental organizations and others.[21]

Canada's seven regional development agencies also assist the country's natural resource sectors, though they have a mandate to promote the economic development of their region rather than to support any specific economic sector. The Vice-President of Operations of Canada Economic Development for Quebec Regions, Marie-Claude Petit, explained:

> We are interested in the natural resources sector because it is a solid driver of growth in some regions. Our intervention priorities address such cross-cutting economic issues as the competitiveness of [small and medium-sized enterprises], market access issues, the necessary transition to net zero and support for devitalized communities.

The financial assistance provided by these agencies is directed toward small and medium-sized enterprises and represents a relatively small amount of the federal government's support for Canada's natural resources sectors. Nevertheless, when interrogated on assessment criteria for primary processing companies in the forestry sector that are ineligible for assistance from Canada Economic Development, Ms. Petit claimed that the agency still supports a lot of projects in the sector. From 2018 to 2021 the regional development agencies provided a combined total of approximately $114 million in assistance to the energy sector, $26 million to the forest sector and $61 million to the mining sector.[22] Figure 8 breaks down this assistance by agency.

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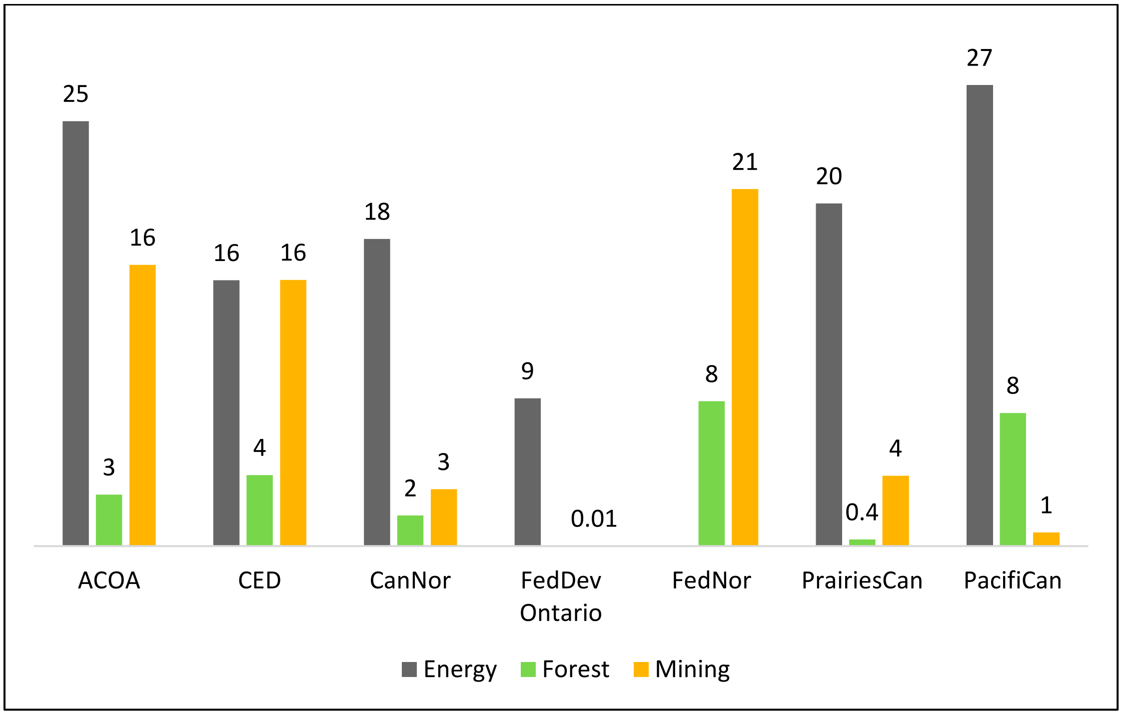
21 RNNR, *Evidence*, 15 November 2022, 1735 (Daniel Dufour, Director General, Innovation Branch, Department of Natural Resources).

22 Written response to Committee questions from: Atlantic Canada Opportunities Agency; Canada Economic Development for Quebec Regions; Canadian Northern Economic Development Agency; Federal Economic Development Agency for Southern Ontario; Federal Economic Development Agency for Northern Ontario; and Prairies Economic Development Canada. See also: Pacific Economic Development Canada, *The Standing Committee on Natural Resources – Federal Assistance for Various Natural Resources Industries*, Brief submitted to RNNR, 28 November 2022.

Figure 8—Regional Development Agency Assistance to Canada's Natural Resources Sectors, 2018 to 2021 (millions of dollars)



Note: Columns showing the same total may not be the same height due to rounding.

Source: Written response to Committee questions from: Atlantic Canada Opportunities Agency (ACOA); Canada Economic Development for Quebec Regions (CED); Canadian Northern Economic Development Agency (CanNor); Federal Economic Development Agency for Southern Ontario (FedDev Ontario); Federal Economic Development Agency for Northern Ontario (FedNor); and Prairies Economic Development Canada (PrairiesCan). See also: Pacific Economic Development Canada (PacifiCan), *The Standing Committee on Natural Resources – Federal Assistance for Various Natural Resources Industries*, Brief submitted to RNNR, 28 November 2022.

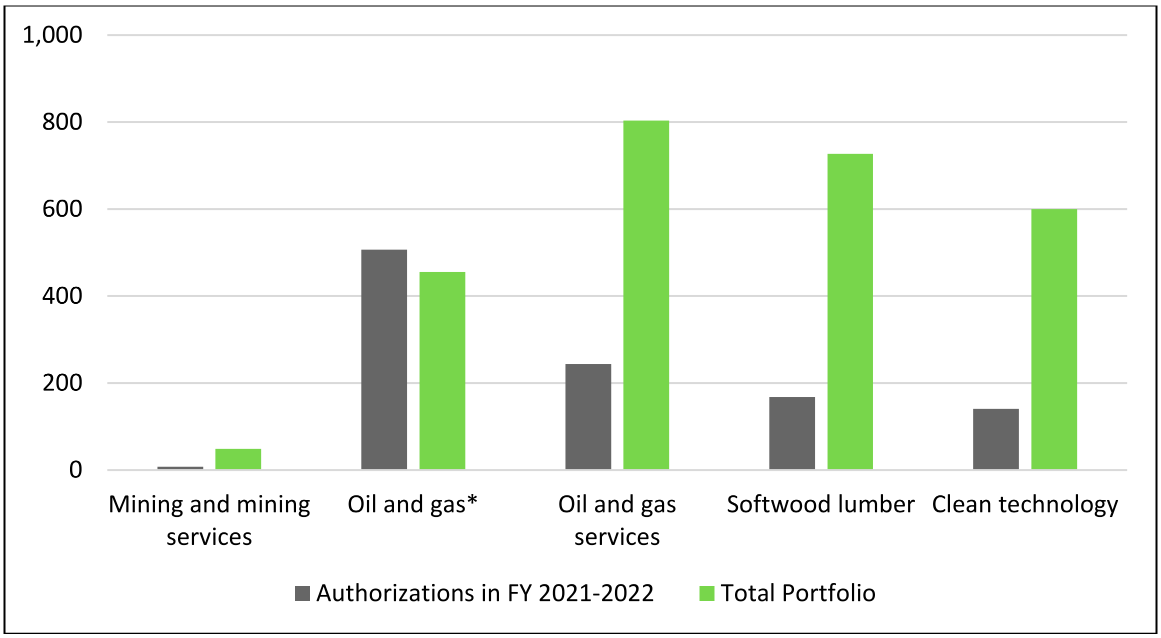
Financing by Crown Corporations

Overview

Federal Crown corporations assist Canada's natural resources sectors through loans, loan guarantees and other forms of financing. During its study, the Committee heard testimony about assistance provided by three Crown corporations: the Business Development Bank of Canada, Export Development Canada and the Canada Development Investment Corporation.

The Business Development Bank of Canada (BDC) is an arms-length lender and investor that exclusively supports entrepreneurs. Shannon Glenn, BDC's Assistant Vice-President of Government Relations, explained that BDC assumes more risk than private sector lenders but provides financing on commercial terms so that does not undercut the private sector. Because BDC supports entrepreneurs, much of its lending related to natural resources is indirect, supporting small and medium-sized enterprises that provide goods and services to natural resources firms. Figure 9 illustrates these investments.

Figure 9—Business Development Bank of Canada Investments in Selected Subsectors, (millions of dollars)



Notes: Approximately 99% of BDC's 2021–2022 authorizations in the "mining and mining services" category were in mining services rather than in mining, while approximately 94% of its portfolio is in mining services.

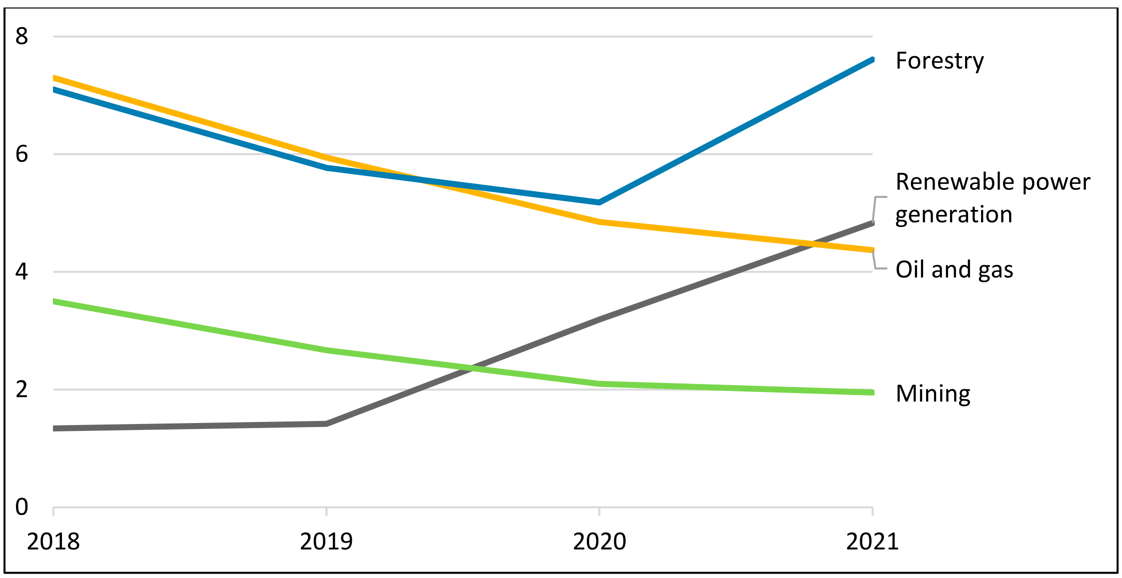
BDC's total portfolio of oil and gas assets is smaller than the investments it authorized in fiscal year 2021–2022, because one client repaid a loan early and because one client did not draw down the full value of the investment that they received from BDC.

Source: RNNR, *Evidence*, 15 November 2022, 1540 (Shannon Glenn, Assistant Vice-President, Government Relations, Business Development Bank of Canada); and BDC, emailed response to questions.

Export Development Canada (EDC) supports Canadian exporters and Canadian companies operating abroad, providing credit and financial advice to grow the country's international trade. Like BDC, EDC is intended to complement private sector lending and provide capital when private funding is scarce. Todd Winterhalt, the Senior Vice-President of Marketing, Communications and Corporate Strategy at EDC, explained that EDC provided additional support to Canadian oil and gas companies during the COVID-19 pandemic, to aluminum and steel producers facing tariffs in 2018 and to softwood lumber producers in 2017.

Figure 10 shows the support that EDC has provided to natural resources subsectors in recent years.

Figure 10—Export Development Canada Support to Natural Resources Subsectors, 2018–2021 (billions of dollars)



Source: EDC, written response to Committee questions.

Finally, the Committee heard from Elizabeth Wademan, the CEO of the Canada Development Investment Corporation (CDEV). CDEV holds and manages commercial assets on behalf of the federal government. One of its subsidiaries is the Trans Mountain Corporation, responsible for the Trans Mountain Pipeline system and the Trans Mountain Expansion Project, which are discussed in the following section.

The Trans Mountain Pipeline System

In 2018, the Government of Canada purchased the entities that own and operate the Trans Mountain Pipeline system, which transports crude oil from Edmonton, Alberta to

Burnaby, British Columbia. As part of the purchase, the federal government undertook to complete the Trans Mountain Expansion Project (TMX), which is a new pipeline that will run largely parallel to the original pipeline, tripling the system's total capacity.

The cost of completing TMX has risen significantly over time. At the time of the purchase, the construction costs of TMX were estimated at $7.4 billion. However, in 2022, Trans Mountain Corporation estimated that the project would cost $21.4 billion.[23] Given the expected market value of the pipeline, the Parliamentary Budget Officer estimates that the purchase of the Trans Mountain Pipeline system will lead to a net loss of $600 million for the federal government.[24]

Moreover, the pipeline operator may be unable to charge high enough tolls to cover the costs of TMX. The Committee heard that the pipeline's toll structure was only designed to cover TMX's original cost estimate of $7.4 billion, plus 20-25% of any additional capital cost increases.[25]

Thomas Gunton, Professor and Founding Director of the Resource and Environmental Planning Program at Simon Fraser University, asserted that this arrangement would mean charging tolls "at roughly a 50% discount of what the economic tolls should be," saying that this would leave the public subsidizing half the cost of each barrel shipped on the pipeline. He said the federal government should order the operator to propose a new toll structure.

A representative of the Canada Energy Regulator (CER) disputed this argument. Chief Economist Jean-Denis Charlebois emphasized that the exact tolls for the pipeline have yet to be decided. He said that while the calculation method for the tolls has already been set, this method allows some costs to be passed along to shippers, while other costs must be borne by the pipeline operator. The CER will review the final tolls to determine if they are "just and reasonable."[26]

The Committee questioned what advice the CER may have given to the Government of Canada at the time of the purchase. Mr. Charlebois testified that as a regulator, the CER

23 Canada Development Investment Corporation, *Annual Report 2021*, 28 March 2022, p. 14.

24 RNNR, *Evidence*, 24 November 2022, 1200 (Yves Giroux, Parliamentary Budget Officer, Office of the Parliamentary Budget Officer).

25 RNNR, *Evidence*, 24 November 2022, 1100 (Thomas Gunton, Professor and Founding Director, Resource and Environmental Planning Program, Simon Fraser University); and West Coast Environmental Law Association, *Submission of Evidence*, Brief submitted to RNNR, 12 December 2022.

26 *Canadian Energy Regulator Act*, S.C. 2019, c. 28, s. 10, ss. 230.

"had no specific role to play" in the transaction.[27] In a written response, the CER informed the Committee that the National Energy Board (NEB) issued a toll order alongside a decision in May 2013, which outlined the tolling methodology for the TMX expansion.[28] In 2016, the NEB also completed an economic feasibility study of the project as part of its review of TMX, which was included in its Recommendation Report to the Governor-in-Council.[29]

Other witnesses discouraged the Committee from focusing solely on the costs of the pipeline. Stewart Muir, the Executive Director of Resource Works, said it was more important to focus on TMX's economic benefits, like the estimated $46 billion in public revenues that it is expected to generate in its first 20 years of operation, and the 28,000 people who have been employed on the project. Mr. Muir added that the costs of TMX would have been similar regardless of whether the pipeline was owned by the Government of Canada. Heather Exner-Pirot made a similar point:

> I also want to iterate that in my opinion, the wrong lesson to draw from TMX cost overruns is that oil and gas is a money loser for Canadian taxpayers. The correct lesson, in my view, is that a pipeline that could have been built for $7 billion 10 years ago now takes well over $20 billion due to our political, legal and regulatory systems. This is a huge problem that needs to be addressed. We seem to be discussing only TMX because the federal government owns it, but project proponents in the private sector have to deal with cost overruns, regulatory burdens and legal delays all the time.

The report returns to this argument later by examining the relationship between federal assistance for natural resources sectors and Canada's competitiveness.

Defining Subsidies

Some of the Government of Canada's support for natural resources sectors comes in the form of subsidies. However, there is broad disagreement about what constitutes a subsidy and what is traditional assistance. Sometimes, the term "subsidies" is used synonymously with other forms of assistance offered by the government, such as tax credits. While there are many definitions of "subsidy," the World Trade Organization's

27 At the time of the transaction, the Canada Energy Regulator was known as the National Energy Board.

28 National Energy Board, *Trans Mountain Pipeline ULC*, Reasons for Decision (16 May 2013).

29 Canada Energy Regulator, Written Response to Committee Questions.

definition is widely used and was cited by a few witnesses during the Committee's study.[30] Miodrag Jovanovic summarized this definition for the Committee:

> [It] generally means a financial assistance provided to a sector, or in the form of services. I have a quote here. It "includes financial benefits provided to businesses or industries, including direct transfers, foregone revenue, transfer of risk, and provision of goods and services." That is one way to approach the notion of a subsidy.

The definition of a subsidy is particularly important when discussing natural resources sectors because of the Government of Canada's commitment to phase out "inefficient fossil fuel subsidies" by 2023. However, the Committee heard disagreement about what constitutes a subsidy, about the cost of Canada's fossil fuel subsidies, and about the appropriate path forward.

As this report has noted, the Government of Canada acknowledged that it does not currently have a definition of "inefficient fossil fuel subsidies." Speaking for the Department of Finance, Miodrag Jovanovic said that the government is developing a definition and working actively to identify and phase out any such subsidies.

Representatives of Crown corporations asserted that their organizations do not provide subsidies.[31] However, while the representative of EDC emphasized that the corporation operates on commercial terms and does not provide subsidies, he did note that EDC acts as the agent for the Canada Account. The Canada Account is used to provide financing that would be considered too risky for a purely commercial transaction but which the Minister of Finance and the Minister for International Trade have deemed to be in the national interest. EDC's investments in TMX are issued from the Canada Account.

The Government of Canada has also committed to end "new support for the international unabated fossil fuel energy sector," and published guidelines for its approach in December 2022. Following from this commitment, Todd Winterhalt explained that EDC will end all funding for international oil and gas projects. However,

30 RNNR, *Evidence*, 15 November 2022, 1715 (Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer, Export Development Canada); and RNNR, *Evidence*, 24 November 2022, 1255 (Keith Brooks, Programs Director, Environmental Defence Canada).

31 RNNR, *Evidence*, 15 November 2022, 1540 (Shannon Glenn, Assistant Vice-President, Government Relations, Business Development Bank of Canada); RNNR, *Evidence*, 15 November 2022, 1715 (Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer, Export Development Canada); and RNNR, *Evidence*, 15 November 2022, 1745 (Elizabeth Wademan, Chief Executive Officer, Canada Development Investment Corporation).

he added that EDC would continue to provide financing to Canadian companies that help reduce the emissions footprint of international oil and gas projects.

For this reason, among others, some witnesses argued that EDC and other federal entities are continuing to provide fossil fuel subsidies. Environmental Defence Canada's Programs Director, Keith Brooks, mentioned "monies allocated to support [research and development] for carbon capture and storage, money from the net-zero accelerator earmarked to reduce the emissions of oil and gas companies and other funds" as examples of current federal fossil fuel subsidies.

Witnesses gave various estimates for the total value of federal fossil fuel subsidies. Thomas Gunton cited a range of estimates for the value of these subsidies in 2020, running from $4 billion to $86 billion. Dr. Gunton argued that the lower end of the range reflected an incomplete accounting of subsidies, adding that the high end includes the estimated environmental costs of federal support for fossil fuels.[32] In contrast, Keith Brooks offered estimates of $18 billion in federal fossil fuel subsidies 2020, $8.6 billion in 2021 and $18.4 billion in 2022, with the last figure including approximately $12 billion for TMX.[33]

The Parliamentary Budget Officer commented that policy makers have a difficult task given the lack of clarity about the definition and magnitude of federal subsidies. "Without having a clear picture of the government resources or tax breaks allocated to each sector," he said, "it is difficult to determine whether their level is too high or too low." Given this lack of clarity, Thomas Gunton called for the Government of Canada to develop an inventory of fossil fuel subsidies, including those aimed at reducing emissions, develop a plan to eliminate these subsidies, and report publicly on its compliance with the plan.

AIMS OF FEDERAL ASSISTANCE TO CANADA'S NATURAL RESOURCES SECTORS

The Government of Canada's policy objectives shape its assistance to natural resources sectors. According to Daniel Dufour, Director General of the Innovation Branch at NRCan, the department's overall aim is to:

32 These estimates all exclude the costs associated with TMX. RNNR, *Evidence*, 24 November 2022, 1100 (Thomas Gunton, Professor and Founding Director, Resource and Environmental Planning Program, Simon Fraser University).

33 The Parliamentary Budget Officer noted that a loan guarantee would not necessarily be an expense.

> advance the sustainability and competitiveness of our natural resource industries as part of the global transition to net-zero emissions by 2050. To achieve this goal, Natural Resources Canada is investing in sustainable energy, mining and forestry initiatives. We're ensuring a just transition by moving forward with comprehensive action, including legislation, to support workers across the country. We're also advancing economic reconciliation in partnership with Indigenous peoples, communities and businesses by ensuring their meaningful participation in Canada's net-zero future.

The themes of sustainability, competitiveness and reconciliation recurred throughout the Committee's study. Accordingly, the following section of this report outlines how the Government of Canada is pursuing these ends and summarizes testimony about the results of the government's approach.

Ensuring Sustainability

Canada's natural resources sectors can contribute to a more sustainable future in many ways. Renewable energy and non-emitting power sources like uranium can replace energy needs that are currently served by fossil fuels. Well-managed forests can capture emissions and sustainably harvested timber can be used as a low-carbon building material. Certain minerals, known as critical minerals, are key inputs in clean technologies like electric vehicle batteries and solar panels.[34]

The Government of Canada has different tools to assess the sustainability of its assistance to natural resources sectors. Federal departments and agencies must include a strategic environmental assessment in funding requests to the Minister of Finance, and the government is developing a "climate lens" that it will apply to a wider range of funding decisions.[35]

However, the Committee also heard how the Government of Canada can do a better job of ensuring the sustainability of these sectors. Witnesses from forestry organizations argued that the forest sector receives less decarbonization funding compared to other sectors. They called on the Government of Canada to increase its spending on existing programs, particularly the Investments in Forest Industry Transformation program,

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34 RNNR, *Evidence*, 15 November 2022, 1535 (Daniel Dufour, Director General, Innovation Branch, Department of Natural Resources).

35 NRCan is one of seven departments that is piloting the climate lens initiative.

RNNR, *Evidence*, 15 November 2022, 1645 (Samuel Millar, Associate Assistant Deputy Minister, Economic Development Branch, Department of Finance).

saying that the latter is underfunded compared to other decarbonization initiatives.[36] Derek Nighbor, the President and CEO of the Forest Products Association of Canada, suggested that the federal government develop a decarbonization roadmap specifically for the forest sector.

Witnesses from the forest sector added that the Government of Canada can do more to encourage the use of low-carbon wood products. For instance, it can develop performance-based building codes that encourage the use of wood building materials such as mass timber.[37] Linda Coady, the President and CEO of the British Columbia Council of Forest Industries, added that the federal government can support the uptake of these products by consistently communicating about their benefits. Stéphane Renou, the President and CEO of FPInnovations, called for more generous, sustained federal research funding for the forest sector. He said that longer-term funding would help companies bridge the “valley of death” between research and commercialization.

One witness encouraged the federal government to consider how oil and gas could contribute to sustainability. Stewart Muir argued that Canadian liquefied natural gas could be used to reduce emissions if it is exported to other countries and used to replace coal-fired electricity. His testimony aligned with the Canadian government’s claim about how some of its spending on fossil fuel projects, like TMX, will generate returns that can be reinvested in low-carbon industries.

However, the Parliamentary Budget Officer questioned this argument, saying that TMX is likely to be a net cost to the government and will therefore not generate net returns that can be reinvested. Other witnesses commented that support for fossil fuel industries will divert capital away from lower-emitting industries that have more potential to grow in the future.[38]

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36 RNNR, *Evidence*, 22 November 2022, 1610 (Derek Nighbor, President and Chief Executive Officer, Forest Products Association of Canada); RNNR, *Evidence*, 22 November 2022, 1600 (Jean-François Samray, President and Chief Executive Officer, Quebec Forest Industry Council); and Canadian Forest Owners, *Written Submission on Federal Assistance for Various Natural Resources Industries to the Standing Committee on Natural Resources of the House of Commons of Canada*, Brief submitted to RNNR, 2 December 2022.

37 RNNR, *Evidence*, 22 November 2022, 1705 (Stéphane Renou, President and Chief Executive Officer, FPInnovations); and RNNR, *Evidence*, 22 November 2022, 1705 (Jean-François Samray, President and Chief Executive Officer, Quebec Forest Industry Council).

38 RNNR, *Evidence*, 24 November 2022, 1115 (Keith Brooks, Programs Director, Environmental Defence Canada); and RNNR, *Evidence*, 24 November 2022, 1255 (Thomas Gunton, Professor and Founding Director, Resource and Environmental Planning Program, Simon Fraser University).

Maintaining Competitiveness

Canada's open, export-oriented economy depends on sectors that can compete in global markets. Witnesses told the Committee that Canada's natural resources sectors have many competitive advantages, but that the federal government can do more to ensure that these sectors can continue to attract investment and compete with foreign companies.

As this Committee has noted in its other reports, investors want certainty. Witnesses said that uncertainty of various kinds continues to be a barrier to investment in Canada. They cited a lack of predictability in policy and long approval timelines for natural resources projects as disincentives to investors. To address these issues, the Government of Canada can give clearer signals about the future direction of its policies, simplify regulations and improve its coordination with provincial and territorial governments, businesses and other partners.[39]

Canada can become a more attractive investment environment in other ways. For instance, good environment, social and governance (ESG) practices represent a potential competitive advantage for Canada.[40] Andrea Hardie, the Director of Health and Safety at Enserva, summarized some of the best practices adopted by Canadian oil and gas companies, including reducing fugitive emissions from hydrogen production, exceeding soil remediation standards and funding air ambulance services in Western Canada. The Government of Canada aims to encourage good ESG practices. For example, BDC's lending to oil and gas companies emphasizes GHG emissions transparency and investments in clean technology.[41]

Federal incentives can also support competitiveness. Witnesses cited tax measures like Canada's flow-through share regime for mining expenditures and the proposed clean

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39 RNNR, *Evidence*, 22 November 2022, 1555 (Linda Coady, President and Chief Executive Officer, British Columbia Council of Forest Industries); RNNR, *Evidence*, 22 November 2022, 1630 (Derek Nighbor, President and Chief Executive Officer, Forest Products Association of Canada); RNNR, *Evidence*, 24 November 2022, 1125 (Heather Exner-Pirot, Senior Fellow, Macdonald-Laurier Institute); RNNR, *Evidence*, 24 November 2022, 1230 (Stewart Muir, Executive Director, Resource Works Society); and PipelineOnline, *Pipeline Online Brief to the Commons Natural Resources Committee on "Federal Assistance for Various Natural Resources Industries"*, Brief submitted to RNNR, 12 December 2022.

40 RNNR, *Evidence*, 22 November 2022, 1605 (Lisa McDonald, Executive Director, Prospectors and Developers Association of Canada).

41 RNNR, *Evidence*, 15 November 2022, 1540 (Shannon Glenn, Assistant Vice-President, Government Relations, Business Development Bank of Canada).

technology tax credit as examples of useful incentives.[42] However, the Committee also heard that these measures are not sufficient to ensure Canada's competitiveness, especially since the passage of the United States *Inflation Reduction Act of 2022*. Witnesses said that incentives in this legislation offer natural resources investors a better return for their money than similar incentives in Canada. They called on the federal government to develop more expansive supports for natural resources sectors so that Canada retains a competitive edge with the United States.[43]

Canadian competitiveness is a security imperative as well as an economic one. Witnesses from the Macdonald-Laurier Institute emphasized that Canada is a key supplier of natural resources, particularly oil, gas and critical minerals. They expressed frustration, saying that the federal government is not acting sufficiently urgently to facilitate Canadian oil and gas exports given that our European allies are looking for alternatives to Russian energy.[44]

The Committee also observed that businesses in the forest sector may struggle to obtain federal support because of the ongoing softwood lumber dispute with the United States. When forestry companies apply to regional development agencies for funding, Global Affairs Canada may review these applications, assess their potential impact on the Canada's relationship with the U.S., and make recommendations about whether the project should be funded.[45]

Advancing Reconciliation with Indigenous Peoples

Indigenous peoples play a prominent role in Canada's natural resource sectors. For instance, an estimated 80% of First Nations communities in Canada live in forested

42 RNNR, *Evidence*, 22 November 2022, 1630 (Jeff Killeen, Director, Policy and Programs, Prospectors and Developers Association of Canada); and RNNR, *Evidence*, 22 November 2022, 1640 (Derek Nighbor, President and Chief Executive Officer, Forest Products Association of Canada).

43 RNNR, *Evidence*, 22 November 2022, 1610 (Derek Nighbor, President and Chief Executive Officer, Forest Products Association of Canada); RNNR, *Evidence*, 22 November 2022, 1710 (Jeff Killeen, Director, Policy and Programs, Prospectors and Developers Association of Canada); RNNR, *Evidence*, 24 November 2022, 1110 (Andrea Hardie, Director, Health and Safety, Enserva); RNNR, *Evidence*, 24 November 2022, 1220 (Stewart Muir, Executive Director, Resource Works Society); and Chemistry Industry Association of Canada, *Enabling Clean Investment and Achieving Our Net Zero Goals*, Brief submitted to RNNR, 14 December 2022.

44 RNNR, *Evidence*, 24 November 2022, 1120 (Heather Exner-Pirot, Senior Fellow, Macdonald-Laurier Institute); and RNNR, *Evidence*, 24 November 2022, 1235 (Calvin Helin, Chief Executive Officer, INDsight Advisers, Macdonald-Laurier Institute).

45 RNNR, *Evidence*, 17 November 2022, 1105 (Marie-Claude Petit, Vice-President, Operations, Canada Economic Development for Quebec Regions).

areas, while there are more than 1,200 Indigenous-led forestry sector businesses, employing 15,000 people.[46] According to Lisa McDonald, Executive Director of the Prospectors and Developers Association of Canada, Canada's mineral industry is the "largest private sector industrial employer of Indigenous people in Canada on a proportional basis and a key partner of Indigenous businesses across the country."

However, Indigenous peoples also face significant negative impacts and barriers that prevent them from sharing fully in the benefits of Canada's natural resource sectors. Colonization deprived Indigenous peoples of many of their traditional lands and resources, causing negative impacts including depleting their wealth and making it harder for Indigenous people to raise capital to this day.[47]

For this reason, some witnesses called on the Government of Canada to create opportunities for Indigenous people to secure equity stakes in natural resources projects. To this end, the federal government could issue low-interest loans or loan guarantees for Indigenous investments in natural resource projects.[48]

Bradley Young, the Executive Director of the National Aboriginal Forestry Association, said that Indigenous communities also need funding to collect information about the natural resources on their lands. He cautioned that any federal funding for this work must be high enough to support expensive, technical work across hundreds of Indigenous Nations.

Calvin Helin, the CEO of INDsight Advisers, exhorted the Government of Canada to support natural resource projects wherever Indigenous communities support them. He said the federal government appears to be sympathetic to groups that want to stop projects at the expense of communities that would benefit from natural resource development.

One way to support such development is by investing in the infrastructure that is needed to develop Canada's resources. This is particularly relevant to Northern and remote regions, which have large Indigenous populations. Ms. McDonald explained that much of the economic potential of Canada's mineral industry lies in Northern and

46 RNNR, *Evidence*, 22 November 2022, 1620 (Bradley Young, Executive Director, National Aboriginal Forestry Association).

47 RNNR, *Evidence*, 24 November 2022, 1235 (Calvin Helin, Chief Executive Officer, INDsight Advisers, Macdonald-Laurier Institute).

48 RNNR, *Evidence*, 22 November 2022, 1650 (Bradley Young, Executive Director, National Aboriginal Forestry Association); and RNNR, *Evidence*, 24 November 2022, 1120 (Heather Exner-Pirot, Senior Fellow, Macdonald-Laurier Institute).

remote regions, but that the region suffers from a serious infrastructure deficit. More than 75% of the known mineral deposits in Canada's territories remain undeveloped because of high operating costs, a lack of infrastructure, and other hurdles.[49]

RECOMMENDATIONS

Based on the testimony collected during its study, the Committee makes the following recommendations to the Government of Canada:

Recommendation 1

That the Government of Canada renew its support for Canada's natural resources sectors by:

- **reviewing existing and announced incentives in light of the United States *Inflation Reduction Act of 2022* and expanding those incentives as necessary;**
- **developing national standards and codes that encourage the uptake of low-carbon natural resources products and by-products;**
- **providing additional funding to consistently oversubscribed programs, such as Investments in Forest Industry Transformation;**
- **investing in public infrastructure necessary for assisting in the sustainable development of Canada's natural resources ; and**
- **continuing to fund the research and development cycle for natural resources innovation, with an emphasis on supporting commercialization.**

49 RNNR, *Evidence*, 17 November 2022, 1105 (Margaret Buist, Vice-President, Policy, Planning, Communications and Northern Projects Management Office, NPMO, Canadian Northern Economic Development Agency).

Recommendation 2

That the Government of Canada work to reduce uncertainty for investors in natural resources sectors by:

- **working with other governments and regulators across Canada to streamline approval and permitting processes for natural resources projects; and**
- **deepening its engagement with Indigenous peoples, industry, workers and affected communities during the policy development process.**

Recommendation 3

That the Government of Canada facilitate Indigenous equity ownership of natural resources projects by:

- **creating a dedicated funding envelope to support Indigenous knowledge-gathering about natural resources on their lands;**
- **partnering with First Nations, Metis, and Inuit communities to draw on and integrate Indigenous expertise about responsible natural resource extraction on their lands into government supports for various natural resource projects;**
- **developing a new national benefits sharing framework to ensure that First Nations and Metis peoples directly benefit from major resource projects in their territories and Inuit communities benefit from major resource projects in Inuit Nunangat; and**
- **developing financing solutions tailored to the needs of Indigenous governments, businesses and communities, such as loan guarantees and low-interest loans for investments in natural resources projects.**

Recommendation 4

That the Trans Mountain Corporation review the toll structure of the Trans Mountain Expansion Project and propose modifications to the toll structure as necessary to reduce the risk to taxpayers.

Recommendation 5

That the Government of Canada provide greater transparency about fossil fuel subsidies by:

- **publishing its definition of fossil fuel subsidies;**
- **publishing its definition of what constitutes an inefficient fossil fuel subsidy;**
- **publishing annual data on Canada's fossil fuel subsidies, including those subsidies that are considered inefficient and those that are aligned with the Government of Canada's policy objectives; and**
- **publishing regular progress reports on the Government of Canada's work to fulfil its commitments to eliminate inefficient fossil fuel subsidies and public support for the fossil fuel energy sector.**

APPENDIX A
LIST OF WITNESSES

The following table lists the witnesses who appeared before the committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the committee's webpage for this study.

Organizations and Individuals	Date	Meeting
Business Development Bank of Canada	2022/11/15	40
Shannon Glenn, Assistant Vice-President, Government Relations		
Canada Development Investment Corporation	2022/11/15	40
Elizabeth Wademan, Chief Executive Officer		
Department of Finance	2022/11/15	40
Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch		
Marie-Josée Lambert, Acting Director General, Crown Investment and Asset Management		
Samuel Millar, Associate Assistant Deputy Minister, Economic Development Branch		
Department of Natural Resources	2022/11/15	40
Daniel Dufour, Director General, Innovation Branch		
Monique Frison, Director General		
Nada Vrany, Director General, Petroleum Resources Branch		
Department of the Environment	2022/11/15	40
Jesse Fleming, Director General, Programs Directorate		
Export Development Canada	2022/11/15	40
Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer		

Organizations and Individuals	Date	Meeting
Atlantic Canada Opportunities Agency	2022/11/17	41
Dave Boland, Director General, Regional Operations (Newfoundland and Labrador)		
Chuck Maillet, Vice-President, Nova Scotia		
Canada Economic Development for Quebec Regions	2022/11/17	41
Marie-Claude Petit, Vice-President, Operations		
Canadian Energy Regulator	2022/11/17	41
Jean-Denis Charlebois, Chief Economist		
Jess Dunford, Director, Major Projects Oversight		
Canadian Northern Economic Development Agency	2022/11/17	41
Margaret Buist, Vice-President, Policy, Planning, Communications and Northern Projects Management Office (NPMO)		
Federal Economic Development Agency for Northern Ontario	2022/11/17	41
Lucie Perreault, Executive Director, Programs		
Linda Cousineau, Vice-President, Business Innovation and Community Development		
Federal Economic Development Agency for Southern Ontario	2022/11/17	41
Steven Masson, Acting Director General, Strategic Policy and Projects		
Prairies Economic Development Canada	2022/11/17	41
Abdul Jalil, Assistant Deputy Minister		
Joanne Pawluk, Director General, Business Innovation and Community Development		
British Columbia Council of Forest Industries	2022/11/22	42
Linda Coady, President and Chief Executive Officer		
Forest Products Association of Canada	2022/11/22	42
Derek Nighbor, President and Chief Executive Officer		

Organizations and Individuals	Date	Meeting
FPInnovations	2022/11/22	42
Stéphane Renou, President and Chief Executive Officer		
National Aboriginal Forestry Association	2022/11/22	42
Bradley Young, Executive Director		
Prospectors and Developers Association of Canada	2022/11/22	42
Jeff Killeen, Director, Policy and Programs		
Lisa McDonald, Executive Director		
Quebec Forest Industry Council	2022/11/22	42
Jean-François Samray, President and Chief Executive Officer		
As an individual	2022/11/24	43
Thomas Gunton, Professor and Founding Director, Resource and Environmental Planning Program, Simon Fraser University		
Enserva	2022/11/24	43
Andrea Hardie, Director, Health and Safety		
Environmental Defence Canada	2022/11/24	43
Keith Brooks, Programs Director		
Macdonald-Laurier Institute	2022/11/24	43
Heather Exner-Pirot, Senior Fellow		
Calvin Helin, Chief Executive Officer, INDsight Advisers		
Office of the Parliamentary Budget Officer	2022/11/24	43
Philip Bagnoli, Advisor-Analyst		
Yves Giroux, Parliamentary Budget Officer		
Resource Works Society	2022/11/24	43
Stewart Muir, Executive Director		

APPENDIX B
LIST OF BRIEFS

The following is an alphabetical list of organizations and individuals who submitted briefs to the committee related to this report. For more information, please consult the committee’s webpage for this study.

Canadian Forest Owners

Chemistry Industry Association of Canada

Coalition for Responsible Energy Development in New-Brunswick

Environmental Defence Canada

Gunton, Thomas

HEJMAS Agrifibre Technologies

McAllister, Ann

Pacific Economic Development Agency of Canada

Pipeline Online

Ramana, M. V.

Resource Works Society

West Coast Environmental Law Association

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the committee requests that the government table a comprehensive response to this report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 40–44, 52, 60–63 and 70) is tabled.

Respectfully submitted,

John Aldag
Chair

There is No Definition: “Subsidies?” to Natural Resources Sectors

Conservative Party of Canada Dissenting Report: *Federal Assistance to Canada’s Natural Resources Sectors*

Standing Committee on Natural Resources

For as long as people have lived in Canada, this land has been defined by its natural resources. From buffalo, animal furs, fish, and timber; to coal, oil, and natural gas; to lithium, uranium, copper, and gold, Canadians responsibly develop, process, and export natural resources.

That’s why the anti-energy, anti-private sector alliance of the NDP, Liberals and Bloc are doing everything in their power to recklessly and prematurely shut down one of the key pillars of Canada’s natural resources development: the oil and gas sector. This ranges from their anti-development C-69 to their export ban C-48, to unrealistic and punitive electricity mandates, expensive carbon tax one and carbon tax two, to their production cap, the job-killing “Just Transition” plans, and now, their crusade against Canada’s uniform tax treatment of the oil and gas sector.

Instead of gatekeeping and excluding Canada’s largest and most profitable sector from continuing and advancing the development of alternative energies like hydrogen, solar, wind, tidal, geothermal, and more, from incentives for lower emissions, the Liberal Government’s incentives should be technology-neutral for companies in all sectors to increase energy efficiency and reduce emissions.

But instead, this Liberal Government’s approach is to demonize and cancel the very sector that provides the vast majority – 75% – of private sector clean technology investment and emissions reduction innovation in Canada.[1]

The Committee’s final report does not provide a definition of a “subsidy” that should be cancelled, and fails to fairly, accurately and comparatively portray the tax treatment of the oil and gas sector in Canada. It also doesn’t take into context the centuries-long benefits of oil and gas in Canada, and does not account for technology-neutral production and investment tax measures in the U.S. or for the risk of carbon leakage and the benefits of exporting more of Canada’s oil and gas products and technology to the world to displace higher-emitting sources of energy from dictators and hostile regimes with lower environmental, human rights, regulatory and transparency standards than Canada. For these reasons, Conservatives are issuing this dissenting report.

[1] Canadian Oil Sands Innovation Alliance, *Article*.

Defining Subsidies:

It's notable that in a study titled "*Federal Assistance to Canada's Natural Resources Sectors*", the Committee's final report could not include a concrete definition of "subsidies," or even make any recommendation of its own to the government to properly reflect what "subsidy" means.

The Canada Energy Regulator, Department of Finance, Prairie Economic Development Canada, Export Development Canada, Dr. Thomas Gunton, Environmental Defence Canada, and the Parliamentary Budget Officer all could not define what a subsidy was when asked to do so by Committee members.

Witnesses like Todd Winterhalt of Export Development Canada stated that "EDC does not provide subsidies,"[2] yet lines of questioning from certain Committee members pre-supposed that export development investments, if not directed to their favoured industries, were subsidies.

Unfortunately, this type of narrative taints any discussion around what is or isn't a "subsidy," and where tax dollars are used efficiently. When these dollars, as in the Liberal budget 2023, are constrained by parameters like certain percentages of union labour conditions – which disproportionately impacts Indigenous workers – and the inability to co-produce oil and gas, it restricts investment in Canada, and further harms the already broken investment climate in Canada.[3]

Tax Treatment and the Numbers:

The reality is that businesses in Canada's oil and gas sector receive a standard benchmark support from various government programs, comparable to other sectors, while the energy sector is actually a net contributor of taxes to all levels of government – far from a subsidized industry, which is and was implied and presumed in the title and lines of questioning in Committee.

Standard tax measures that apply to all sectors of the economy should not be included in the context and concept of accurately assessing the existence of energy sector subsidies. While the final report included the list of "beneficiaries" of tax payments as examples of natural resource subsidies, other recipients include: individuals, businesses, corporate donors, adoptive parents, seniors, apprentice vehicle mechanics, caregivers, families with minor children, corporations in the film and video production industry, Canadian journalism organizations, and members of the clergy or of a religious order, regular ministers of a religious denomination – just to name a few.[4]

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[2] RNNR, *Evidence*, 15 November 2022 (Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer, Export Development Canada).
[3] Government of Canada, *Budget 2023*, and *Budget 2023: Tax Measures: Supplementary Information*.
[4] Department of Finance, *Report on Federal Tax Expenditures*, 2022.

Witnesses pointed out that federal funding support for alternative energy currently eclipses the same for the oil and gas sector – while it is also the case that the alternative energy sector does currently make significantly less contributions to the Canadian economy and tax revenue to all levels of government.[5]

Stewart Muir of Resource Works highlighted the example that $2 billion in deep-well royalty credits launched $80 billion in upstream natural gas investment: "Great social and climate benefit was created by bringing this lower-emission fuel to market because of those subsidies. I would challenge anyone to show me a more productive return on subsidy dollars from any sector that is supported in any way by subsidies."[6]

For years, Canadian private sector resource proponents have wanted timely, fair, clear, certain, and predictable regulatory and fiscal conditions for their industries. not government subsidies. But the pancaking of regulations, red tape, taxes and mandates by the NDP-Liberal anti-energy agenda drives investment out of Canada, and also forces Canadian businesses to look elsewhere to start up new, innovative operations like hydrogen or biofuels.

The best remedy was highlighted by Dr. Exner-Pirot: "The best assistance the government can provide to the natural resource sector is to reform the regulatory system and make investing in natural resources more competitive and attractive in Canada."[7]

Conservatives agree. Rather than arguing over benchmark tax treatment and about "inefficient fossil fuel subsidies" that the government and its agencies can't even define, the Liberals should put their effort into fixing the regulatory system that they broke – or get out of the way, so Conservatives can fix it for them.

Benefits of Canadian Oil and Gas:

The Canadian oil and gas sector contributed $216 billion to Canada's nominal GDP – 11% of all of Canada's GDP in 2021.[8] It provides 178,000 direct jobs across the country, with another 415,000 indirect jobs, and hundreds of thousands more induced jobs in energy-based and rural, remote, and Indigenous communities across the country.[9]

Resource Works highlighted that "jobs in natural resources create five or six times the impact on GDP, because they create resource commodity exports and contribute directly to them. There's a five or six times greater impact than the average job. These 15,000 individuals have an impact on the economy of 75,000 average workers."[10]

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[5] RNNR, *Evidence,* 15 November 2022 (Todd Winterhalt, Senior Vice-President, Marketing, Communications and Corporate Strategy Officer, Export Development Canada).
[6] RNNR, *Evidence,* 24 November 2022 (Stewart Muir, Executive Director, Resource Works Society).
[7] RNNR, *Evidence*, 24 November 2022 (Dr. Heather Exner-Pirot, Senior Fellow, Macdonald-Laurier Institute).
[8] The percentage contribution to GDP was then calculated using expenditure-based GDP data, seasonally unadjusted, in current prices. See: Statistics Canada, *Gross domestic product, expenditure-based, Canada, quarterly (x 1,000,000)*, Table 36-10-0104-01.
[9] Enserva, Correspondence submitted to RNNR, 25 November 2022.
[10] RNNR, *Evidence,* 24 November 2022 (Stewart Muir, Executive Director, Resource Works Society).

Grossly out-contributing other industries, the oil and gas sector is estimated to pay $50 billion in taxes and royalties to federal and provincial governments in 2022,[11] while unrealized revenues to government only average $1.8 billion. This outpaces forestry contributions, estimated at $220 million in revenues to the federal and Quebec governments,[12] the $15 billion in taxes from finance and insurance, $1 billion from agriculture, forestry, fishing, and hunting, $5 billion from real estate and $3.6 billion from construction.[13]

The outsized contribution in taxes and royalties to all levels of government pays for healthcare, roads, education, and other social programs and public services, and various governments' incentives to alternative energy and other government-funded economic development programs.

Despite these benefits, Liberal government barriers hamper the sector, and its prime objective remains to recklessly and prematurely phase out the Canadian industry. Dr. Heather Exner-Pirot testified that Canada's regulatory regime, of which the Liberal anti-energy Bill C-69, the *Impact Assessment Act*, is a competitive obstacle to the Canadian natural resources sector. She said "the regulatory system is still a huge barrier to actually getting investment into mines that get developed and start producing those minerals."[14] Derek Nighbor of the Forest Products Association of Canada also said that the sector "need[s] greater regulatory and policy certainty… [Liberal government actions] are creating some problems for us rather than solutions, and bringing some uncertainty to future investment in Canada."[15]

It has also stunted the growth of Indigenous-led projects, as Calvin Helin notes: "I think there's a great frustration in the indigenous community that their interest in becoming active participants in the economy is being frustrated by government policy, particularly in the natural resources sector. Instead of managing our poverty, there's a huge interest in getting back to the prosperity that existed prior to Europeans coming to the Americas."[16]

Conservatives believe that anti-investment policies like the carbon tax one and two (fuel regulations) should be removed, to spur Indigenous prosperity and unleash and expand the investment potential from Canada's traditional energy sector into Canada's emerging alternative energy sector.

[11] Federal and provincial/territorial governments in Canada receive direct revenues from energy industries through corporate income taxes, indirect taxes, crown royalties and crown land sales. See: *NRCan, Energy Fact Book, 2022–2023*, p. 14. Income earned by oil and gas corporations are subject to the federal tax rate of 15% and to a provincial or territorial tax rate, ranging between 11.5% to 16%. Royalty regimes vary for each province and territory and rates can range up to 45%. In general, royalty rates are calculated based on well productivity and wellhead price. See: EY, *Global oil and gas tax guide 2019*, "Canada,"; and KPMG, *Guide to oil and gas taxation in Canada*, May 2018.

[12] RNNR, *Evidence,* 22 November 2022 (Jean-François Samray, President and Chief Executive Officer, Quebec Forest Industry Council).

[13] Department of Finance, Correspondence submitted to RNNR, 20 January 2023.

[14] RNNR, *Evidence*, 24 November 2022 (Dr. Heather Exner-Pirot, Senior Fellow, Macdonald-Laurier Institute).

[15] RNNR, *Evidence,* 22 November 2022 (Derek Nighbor, President and Chief Executive Officer, Forest Products Association of Canada).

[16] RNNR, *Evidence,* 24 November 2022 (Calvin Helin, Chief Executive Officer, INDsight Advisers, Macdonald-Laurier Institute.)

Canada in a Global Context: Carbon Leakage and the United States

The committee heard from witnesses that the Canadian industry “has an incredible opportunity to help meet the growing global demand for climate-friendly products,”[17] and “Canada can be the supplier of choice, both domestically and for our strategic partners.”

This report assumes that emissions stop at the border, and that exporting Canada’s oil and gas to displace other higher-emitting sources of energy is not beneficial. But Dr. Exner-Pirot highlighted in her testimony that “it is not an exaggeration to say that the energy security of our allies in the decades to come will rely on Canada's continued exports of significant quantities of oil and gas. The consequences of becoming reliant on authoritarian regimes to supply the world with their biggest source of energy are dire, as we are seeing in Europe already.”

Due to the Liberal government’s anti-energy, anti-private sector policies, companies now look elsewhere, especially attracted by the United States’ *Inflation Reduction Act* created technology-neutral production and investment tax credits. Canada’s *Budget 2023*, which the Liberals framed as a response to the IRA, instead created red tape and conditions on almost every one of its subsidies. As an example, Budget 2023 has no production tax credits. The U.S. IRA has a technology-neutral production tax credit for net-zero GHG electricity production, and another for “advanced manufacturing” of “clean energy equipment.” Both credits are available for 10 years.

The government has not provided comparable tax incentives or credits for Canadian energy, and instead committed a $16.3 billion subsidy to Volkswagen’s plant, which led to another major private sector proponent threatening to leave Canada unless it received comparable support. The U.S. Inflation Reduction Act’s incentive program was worth $370 billion – more than Canada’s federal budget’s revenues were in 2020-21 ($316 billion), and just shy of the 2021-22 ($413 billion). The Liberals have created a structural spiral of inflationary spending and debt financing which has resulted in $25 billion in annual spending just to *service* Canada’s debt, not even pay it down, and added another $90 billion in debt last year, after adding over $310 billion the year before. This short sighted, irresponsible and failed fiscal mismanagement has resulted in soaring inflation and interest rate heights. It would clearly be folly for the Canadian government to even attempt to compete dollar-for-dollar with the U.S. on direct subsidies, so rather than trying to compete by picking winners and losers, Canada should aggressively improve the certainty and predictability of domestic regulatory and investment conditions, and reduce timelines and taxes – elements the government can completely control and make competitive with the U.S. and other jurisdictions. Tragically, Canada’s regulatory competitiveness, environmental excellence, and global perception previously made it a prime destination for foreign investment but the Liberal government has complicated, duplicated, and

[17] RNNR, *Evidence*, 22 November 2022 (Linda Coady, President and Chief Executive Officer, B.C. Council of Forest Industries) and RNNR, *Evidence*, 24 November 2022 (Dr. Heather Exner-Pirot, Senior Fellow, Macdonald-Laurier Institute).

slowed down Canada's regulatory and permitting processes, and implemented more political and arbitrary interference so jurisdictions like Australia, the U.S. and others, surpass Canada as a global resource developer and supplier of choice.

In Conclusion:

It's clear that the Liberal government doesn't care about the development of traditional oil and gas energy, or about the future of alternative energy like wind, solar, tidal, geothermal, hydrogen, biofuels, and more. Hejmas Agrifibre Technologies, a pulp mill that would create bio-plastics from their waste stream, submitted a brief[18] that highlighted the "need in Canada to create a business environment where private investors want to come in to Canada, instead of recommending that companies like ours put our technology into practice in other countries." Unfortunately, since their brief, Hejmas has indicated it will move overseas, as the regulatory and investment regime in Canada does not exist for this type of innovative emerging technology.

The reality is the world will continue to need and use oil and gas for decades to come, while major polluters like China and India, generate the vast majority of global emissions – and continue to fire up new coal plants (data from 2022).

Conservatives recognize that Canada's oil and gas sector is the top private sector, top exporter, and top investor in the Canadian clean economy. The report was a missed opportunity to signal the Government's support for the future of Canada's resource development and to make recommendations that would foster both traditional and alternative energy development and attract investment to Canada.

[18] RNNR, *Written Brief*, 9 December 2022 (HEJMAS Agrifibre Technologies).