



HOUSE OF COMMONS  
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CANADA

# **THE GOVERNMENT OF CANADA'S PLANNED PHASE-OUT OF FOSSIL FUEL SUBSIDIES AND OF PUBLIC FINANCING OF THE FOSSIL FUEL SECTOR**

**Report of the Standing Committee on Environment and  
Sustainable Development**

**Francis Scarpaleggia, Chair**

**JUNE 2023  
44th PARLIAMENT, 1st SESSION**

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Chair**

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### **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.

To assist the reader:

A list of abbreviations used in this report is available on page ix

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# **THE STANDING COMMITTEE ON ENVIRONMENT AND SUSTAINABLE DEVELOPMENT**

has the honour to present its

## **NINTH REPORT**

Pursuant to its mandate under Standing Order 108(2), the committee has studied fossil fuel subsidies and has agreed to report the following:



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## LIST OF ACRONYMS

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CAPP	Canadian Association of Petroleum Producers
CCUS	Carbon capture utilization and storage
CAD	Canadian dollars
CESD	Commissioner of the Environment and Sustainable Development
CO <sub>2</sub>	Carbon dioxide
COP	Conference of the Parties
ECCC	Environment and Climate Change Canada
EDC	Export Development Canada
ERP	Emissions Reduction Plan
FTS	Flow-through share
GDP	Gross domestic product
GHG	Greenhouse gas
IEA	International Energy Agency
IISD	International Institute for Sustainable Development
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
NASA	National Aeronautics and Space Administration
NDC	Nationally determined contribution
NRCan	Natural Resources Canada
OAG	Office of the Auditor General

OECD	Organization for Economic Co-operation and Development
SDG	Sustainable Development Goal
UK	United Kingdom
UN	United Nations
UNDRIP	United Nations Declaration on the Rights of Indigenous Peoples
UNEP	United Nations Environment Programme
USA	United States of America
USD	American dollars
WTO	World Trade Organization

# LIST OF RECOMMENDATIONS

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*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.*

## **Recommendation 1**

**That the Government of Canada continue taking steps to eliminate subsidies and applicable public financing for the fossil fuel sector by the end of 2023, with careful attention to and mitigation of any potential social and economic impacts. .... 24**

## **Recommendation 2**

**That the Government of Canada ensure that Canada’s commitment to eliminate inefficient fossil fuel subsidies aligns with and provides policy coherence to Canada’s domestic public financing policy. .... 24**

## **Recommendation 3**

**That the Government of Canada assess planned and proposed policy measures based on whether they support or hinder Canada's long-term economic growth and a smooth transition for workers and communities, especially in the face of the accelerating decarbonization in global markets. .... 30**

## **Recommendation 4**

**That the Government of Canada take steps to ensure that public funds cannot be invested in any energy infrastructure that is at risk of becoming a “stranded asset” during the energy transition. .... 30**

## **Recommendation 5**

**That the Government of Canada ensure that any subsidy it offers facilitates the transition toward a low-carbon future, and is consistent with Canada’s 2026 emissions objective, 2030 emissions reduction goals and its 2050 net zero emissions goals. .... 30**

**Recommendation 6**

That the Government of Canada adopt:

- a broad, internationally recognized definition of a fossil fuel subsidy; and
- a definition of “inefficient,” in the context of fossil fuel subsidies. .... 31

**Recommendation 7**

That the Government of Canada develop a framework for decision-making related to supports for the oil and gas industry that is based on analysis and assessment of the most cost-effective way to achieve greenhouse gas reductions while considering the needs of workers and communities. .... 31

**Recommendation 8**

That the Government of Canada, inclusive of Canadian Crown Corporations, publish, before the end of 2023, its plan to phase out public financing of the fossil fuel sector, and that the plan be ready for implementation..... 31

**Recommendation 9**

That the Government of Canada attach strict conditions to all funding programs to ensure government spending is aligned with Canada’s obligations under the *Paris Agreement*..... 33

**Recommendation 10**

That Natural Resources Canada ensure that, for onshore projects, the Emissions Reduction Fund only considers projects that fully eliminate methane emissions. .... 41

**Recommendation 11**

That the Government of Canada complete and publish its fossil fuel subsidy peer review with Argentina as quickly as possible..... 41



**Recommendation 12**

**That the Government of Canada make information about subsidies and supports to the fossil fuel sector transparently available, to allow for a more comprehensive inventory and analysis. .... 44**

**Recommendation 13**

**That the Government of Canada support renewable energy innovation to demonstrate the potential for an affordable, clean energy transition. .... 47**

**Recommendation 14**

**That the Government of Canada use its resources to prioritize support for identified, technologically viable decarbonization options, as well as scaled-up renewable electricity generation and new distribution and transmission technology. .... 48**

**Recommendation 15**

**That the Government of Canada continue to emphasize carbon pricing and flexible regulations as the core of its emissions reduction policy, in order to minimize the costs required to achieve significant emissions reductions. .... 49**

**Recommendation 16**

**That the Government of Canada should make public investments in projects that are complementary to carbon pricing and to other regulatory policies aimed at reducing greenhouse gas emissions..... 49**

**Recommendation 17**

**That the Government of Canada continue to ensure that the competitiveness of Canada’s oil and gas sector is considered when it makes decisions related to climate change measures, and that it continue to collaborate with other jurisdictions to address issues of global competitiveness. .... 51**

**Recommendation 18**

**That the Government of Canada ensure that all its policies and measures, including those related to support for the fossil fuel sector, are consistent with—and efficiently achieve—the country’s 2030 emissions reduction goals and its 2050 net zero emissions goals. .... 56**

**Recommendation 19**

**That the Government of Canada conduct modelling and costing of climate policy options early in policy development across all departments and agencies, and that it establish criteria for government spending on programs that include consideration of a project’s contribution to net zero emissions by 2050 relative to its cost. .... 56**

**Recommendation 20**

**That the Government of Canada consider carbon contracts for differences to ensure that companies that are eligible to produce credits for greenhouse gas emissions reductions have certainty of the value of those credits, regardless of future changes to the carbon price. .... 56**

**Recommendation 21**

**That the Government of Canada increase support for scale-up of market-ready renewables and other low emissions solutions to the challenges of getting to net zero emissions..... 61**



# THE GOVERNMENT OF CANADA'S PLANNED PHASE-OUT OF FOSSIL FUEL SUBSIDIES AND OF PUBLIC FINANCING OF THE FOSSIL FUEL SECTOR

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## INTRODUCTION

On 3 February 2022, the House of Commons Standing Committee on Environment and Sustainable Development (the Committee) adopted the following motion:

That, pursuant to Standing Order 108(2), the committee conduct a study of the government's commitments to accelerate Canada's G20 commitment to eliminate fossil fuel subsidies from 2025 to 2023 and to develop a plan to phase out public financing of the fossil fuel sector, including by federal Crown corporations; that the study include a review of the definition of a subsidy and the criteria used to determine if a subsidy is inefficient, how those commitments contribute to achieving Canada's climate targets and obligations under the *Paris Agreement*, and how Canada plans to meet those commitments; that experts and stakeholders be invited to appear; that the Minister of Environment and Climate Change and the Deputy Prime Minister and Minister of Finance be invited to appear; that the study consist of no fewer than five meetings; that the committee report its findings to the House of Commons; and that all meetings be televised.<sup>1</sup>

The Committee began its study on 29 March 2022 and heard from 37 witnesses from 27 organizations over five meetings. Members agreed to incorporate into the evidence the speaking notes of one witness who was unable to appear.<sup>2</sup> The Committee received 19 briefs.<sup>3</sup> The Committee sincerely thanks all witnesses and authors of briefs for their contributions to this study. The Committee wishes to note that the situation in relation to eliminating inefficient fossil fuel subsidies and developing a plan to phase out public

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1 House of Commons, Standing Committee on Environment and Sustainable Development (ENVI), *Minutes of Proceedings*, [Meeting 3](#), 1<sup>st</sup> Session, 44<sup>th</sup> Parliament, 3 February 2022.

2 Grand Chief Stewart Phillip, President of the Union of British Columbia Indian Chiefs, was unable to appear, but provided his speaking notes.

3 Seven of the 19 briefs received were from groups or individuals who also appeared as witnesses.



financing has continued to evolve since the Committee last heard testimony on this topic on 5 May 2022, and that there may be government documentation more recent than that cited in the testimony.

## BACKGROUND AND CONTEXT

As part of its efforts to achieve Canada’s climate change targets and obligations, the federal government has made several commitments to reduce its financial support to the fossil fuel industry.

This section begins by providing some brief background about the state of climate change and its impacts around the world and in Canada. It then offers an overview of the main global agreements related to climate change, and of Canada’s commitments to reduce greenhouse gas (GHG) emissions in this context, and the impact it would have on Canadians and Canadian industry.

### Climate Change

Human-caused GHG emissions are estimated to have raised the earth’s average temperature to about 1.1°C above its pre-industrial average.<sup>4</sup>

The global mean temperature for 2021 was  $1.11 \pm 0.13$  °C above the pre-industrial average, and the last seven years have been the warmest seven years on record.<sup>5</sup> The effects of this heating—water scarcity, heat waves, forest fires, extreme precipitation, sea-level rise, and species and ecosystem losses—are expected to worsen with every increment of warming.<sup>6</sup>

There is consensus among climate scientists that the increase in global average temperature by the end of the 21st century must be held near 1.5°C, and well below 2°C, above the pre-industrial average, to reduce the risks and impacts of climate change significantly.<sup>7</sup>

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4 Intergovernmental Panel on Climate Change (IPCC), [\*Climate change widespread, rapid, and intensifying—IPCC\*](#), News release, 9 August 2021.

5 World Meteorological Association, [\*State of the Global Climate 2021\*](#), 2022, p. 6.

6 Alan Buis, [\*“A Degree of Concern: Why Global Temperatures Matter,” NASA Global Climate Change\*](#), 19 June 2019.

7 IPCC, [\*Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments\*](#), News release, 8 October 2018.

To limit global warming and its harmful impacts, it is necessary to limit the total cumulative global anthropogenic emissions of CO<sub>2</sub> within a “carbon budget.”<sup>8</sup> For a 67% chance of keeping warming under 1.5°C, the remaining global carbon budget, which is the maximum amount of CO<sub>2</sub> that can be emitted, is estimated to be approximately 400 gigatonnes (Gt) of CO<sub>2</sub>.<sup>9</sup> Annual net global emissions of CO<sub>2</sub> have been estimated at approximately 42 ± 3 Gt by the Intergovernmental Panel on Climate Change (IPCC).<sup>10</sup> To limit warming, it is also necessary to limit emissions of other GHGs,<sup>11</sup> which warm the Earth to different extents and stay different lengths of time in the atmosphere.<sup>12</sup>

According to the United Nations Environment Programme (UNEP), annual global GHG emissions must be reduced steadily from current levels to about 25 Gt of CO<sub>2</sub> equivalent by 2030 to yield a good chance of keeping the global temperature increase below 1.5°C by 2100.<sup>13</sup>

Another way to understand the changes to the climate is in the concentration of CO<sub>2</sub> in the atmosphere,<sup>14</sup> because CO<sub>2</sub> is a significant GHG that is emitted during the burning of fossil fuels, as well during wildfires and volcanic eruptions. The level of atmospheric CO<sub>2</sub> was measured at 419 parts per million (ppm) in July of 2022,<sup>15</sup> 50% higher than at the beginning of the industrial era, and significantly higher than it has been in hundreds of thousands of years.<sup>16</sup>

Climate change impacts are not felt evenly around the world, or by all members of affected communities. Among other outcomes, this situation, like a number of others, presents challenges relating to equality and intergenerational equity. For instance, young

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8 IPCC, “[Summary for Policymakers](#),” *Global Warming of 1.5°C: An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty*, 2018, p. 12.

9 IPCC, “[Summary for Policymakers—Climate Change 2021: the Physical Science Basis](#),” *Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*, p. 38.

10 Ibid.

11 According to [Canada’s official greenhouse gas inventory—Main page](#), greenhouse gases other than carbon dioxide (CO<sub>2</sub>) include: methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), sulfur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>).

12 IPCC, “[Summary for Policymakers—Climate Change 2021: the Physical Science Basis](#),” *Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*, p. 38.

13 United Nations Environment Programme (UNEP), [Emissions Gap Report 2021](#), 26 October 2021, p. XXIV.

14 ENVI, [Evidence](#), 31 March 2022, 2035 (David Gooderham, as an individual).

15 NASA Global Climate Change: Vital Signs of the Planet, “Vital Signs,” [Carbon Dioxide](#), July 2022.

16 Ibid.



people, future generations, Indigenous communities, rural communities, marginalized populations and people in lower income brackets, most of whom may not have contributed significantly to global warming, will live with its consequences.

Canada's climate is also changing. In a 2019 report, the Government of Canada explained that:

- Canada has warmed and will warm further at about double the rate of the rest of the world, while the rate is even higher in Northern Canada;
- this warming is already having noticeable effects, which will intensify in the future; and
- reducing GHG emissions can limit the extent of warming and its effects, but will not be sufficient to halt global warming or reverse its impacts; it will prevent them from being more severe.<sup>17</sup>

The impacts of climate change—actual and anticipated—have prompted governments around the world to collaborate and to develop plans to mitigate and adapt to climate change.

## Response to Climate Change

This section outlines global efforts to respond to the challenges of climate change and to try to slow warming, and then presents Canada's responses and commitments.

### Global Response

Most of the world's countries work together through the United Nations (UN) system to address climate change. Canada is a party to the *United Nations Framework Convention on Climate Change* and the *Paris Agreement*. The *Paris Agreement*, which was concluded at the 21st Conference of the Parties—COP 21—in 2015, contains commitments designed to reduce GHG emissions and adapt to the impacts of climate change.<sup>18</sup>

In particular, the *Paris Agreement* requires the parties to take actions to limit the increase in the global average temperature to “well below 2°C” and to pursue efforts to limit the increase to 1.5°C above pre-industrial levels by 2100. The parties set their own

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17 Government of Canada, [Canada's Changing Climate Report](#), 2019.

18 United Nations (UN), [Paris Agreement](#), 2015.

GHG emissions reduction targets, which are known as nationally determined contributions (NDCs). The NDCs are expected both to be updated every five years and to exceed previous targets by aiming to attain greater emissions reductions or to reduce emissions more quickly. In addition to seeking to mitigate climate change, the *Paris Agreement* also commits the parties to work towards adaptation and climate-resilient development.<sup>19</sup>

At the 26th Conference of the Parties (COP 26), which was held in Glasgow in 2021, about 150 countries committed to increase their efforts to reduce GHG emissions. According to projections, if acted on, the combined total commitments made by all parties to the *Paris Agreement* to date would limit the increase in the average global temperature to between 1.7°C and 2.6°C above the pre-industrial average by 2100.<sup>20</sup> However, the current policies of all parties to the *Paris Agreement* would lead to warming of between 2.0°C and 3.6°C above the pre-industrial average.<sup>21</sup> The disparity indicates a need for new policies and actions to implement the pledges made at COP 26. Countries are expected to “revisit and strengthen” the 2030 targets in their NDCs by the end of 2022.

As part of its sixth assessment cycle, the IPCC has released three draft reports recently: Climate Change 2021: The Physical Science Basis,<sup>22</sup> Climate Change 2022: Impacts, Adaptation and Vulnerability,<sup>23</sup> and Climate Change 2022: Mitigation of Climate Change<sup>24</sup> (the mitigation report). A synthesis report is forthcoming. Each report highlights the urgency for governments to take actions to address climate change.

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19 UN, *Paris Agreement*, art. 2, paras. 1(b) and 1(c).

20 Climate Action Tracker, *Glasgow's 2030 credibility gap: net zero's lip service to climate action*, 9 November 2021.

21 Alison Clegg and Natacha Kramski, “COP26: Negotiating for 1.5 Degrees Celsius: Figure 1—Projected Increase in Global Average Temperature by 2100,” *HillNotes*, Library of Parliament, 7 December 2021.

22 IPCC, *Climate Change 2021: The Physical Science Basis*, 2021.

23 IPCC, *Climate Change 2022: Impacts, Adaptation and Vulnerability*, 2022.

24 IPCC, *Climate Change 2022: Mitigation of Climate Change*, 2022.



Numerous witnesses indicated that they see the IPCC's reports as a trustworthy source of information and recommended actions to reduce GHG emissions.<sup>25</sup>

The UN's Secretary-General, António Guterres, [summarized](#) the main message of the mitigation report in the following way: "The science is clear: to keep the 1.5°C limit agreed in Paris within reach, we need to cut global emissions by 45% this decade."<sup>26</sup>

## Canada's Federal Response

In response to the threats posed by climate change, Canada, like other signatories to the *Paris Agreement*, has committed to reduce its GHG emissions and take steps to adapt to the anticipated changes. Canada's current commitment, made in 2021, is to reduce its emissions by 40% to 45% below 2005 levels by 2030, and to achieve net-zero emissions by 2050,<sup>27</sup> that is, from around 730 megatonnes of carbon dioxide equivalent (Mt CO<sub>2</sub> eq) in 2019 to between 406 and 443 Mt CO<sub>2</sub> eq by 2030. In 2021, the last year for which data are available, Canada's emissions were 670 Mt CO<sub>2</sub> eq.<sup>28</sup>

Under the *Canadian Net-Zero Emissions Accountability Act*, the Government of Canada is required to reduce Canada's greenhouse gas (GHG) emissions to net-zero by 2050, and to create a planning and reporting process for the government to follow as it pursues this reduction.<sup>29</sup> As required by the Act, the government published, on 29 March 2022, the 2030 Emissions Reduction Plan (2030 ERP).<sup>30</sup> The 2030 ERP highlights measures the

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25 ENVI, [Evidence](#), 31 March 2022, 1910 (Julia Levin, Senior Climate and Energy Program Manager, Environmental Defence Canada); ENVI, [Evidence](#), 31 March 2022, 1935 (David Gooderham); ENVI, [Evidence](#), 5 April 2022, 1100 (Eddy Pérez, International Climate Diplomacy Manager, Climate Action Network Canada); ENVI, [Evidence](#), 5 April 2022, 1135 (Jerry V. DeMarco, Commissioner of the Environment and Sustainable Development, Office of the Auditor General); ENVI, [Evidence](#), 5 April 2022, 1210 (Éric Pineault, Professor, President of the Scientific Committee, Institute of Environmental Sciences, Université du Québec à Montréal, as an individual); ENVI, [Evidence](#), 26 April 2022, 1105 (Jason MacLean, Assistant Professor, Faculty of Law, University of New Brunswick, as an individual); ENVI, [Evidence](#), 26 April 2022, 1205 (Annie Chaloux, Associate Professor, Climate Policy Specialist, Université de Sherbrooke, as an individual); ENVI, [Evidence](#), 26 April 2022, 1255 (Aaron Cosbey, Senior Associate, International Institute for Sustainable Development).

26 UN, [Press Release](#), "[Secretary-General Warns of Climate Emergency, Calling Intergovernmental Panel's Report 'a File of Shame', While Saying Leaders 'Are Lying', Fuelling Flames](#)", 4 April 2022.

27 Environment and Climate Change Canada (ECCC), [Government of Canada confirms ambitious new greenhouse gas emissions reduction target](#), News release, 12 July 2021.

28 ECCC, [National Inventory Report 1990–2021: Greenhouse Gas Sources and Sinks in Canada, Executive Summary](#).

29 Government of Canada, [Canadian Net-Zero Emissions Accountability Act](#).

30 ECCC, [2030 Emissions Reduction Plan: Canada's Next Steps for Clean Air and a Strong Economy](#), 2022.



government has already implemented, as well as \$9.1 billion in new spending that the government has planned to help Canada achieve its emissions reduction goals.

Among the commitments made by the federal government as part of its efforts to reduce GHG emissions are several that relate to the supports for the fossil fuel sector. These are outlined in a later section.

## Achieving Net Zero Emissions by 2050

In laying out a scenario illustrating how the world can reach net zero emissions by 2050, the International Energy Agency states that all governments must eliminate fossil fuel subsidies “in the next few years.”<sup>31</sup> The costs of inaction on climate change—that is, the costs of dealing with floods, wildfires, heat domes, melting permafrost, rising sea levels, etc.—are estimated to be very high compared with the costs of supporting a transition to a low-carbon economy that achieves net-zero emissions of CO<sub>2</sub> by 2050.<sup>32</sup> Bronwen Tucker, the Public Finance Campaign Co-Manager at Oil Change International, emphasized this cost difference.<sup>33</sup>

As the Auditor General of Canada stated in a 2017 report, meeting the G20 commitment on fossil fuel subsidies “will have a positive impact on the health of Canadians and the environment by reducing greenhouse gas emissions and wasteful consumption of fossil fuels, and by encouraging investments in clean energy.”<sup>34</sup>

## Fossil Fuels and the *United Nations Declaration on the Rights of Indigenous Peoples Act*

The *United Nations Declaration on the Rights of Indigenous Peoples Act* received Royal Assent on 21 June 2021, and is intended to affirm the United Nations Declaration on the Rights of Indigenous People (UNDRIP) as a universal international human rights instrument with application in Canadian law, and to provide a framework for the

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31 International Energy Agency, [Net Zero by 2050: A Roadmap for the Global Energy Sector](#), October 2021, p. 14, p. 52, p. 139.

32 Deloitte, [Deloitte research reveals inaction on climate change could cost the world's economy US\\$178 trillion by 2070](#), News Release, 23 May 2022.

33 ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker, Public Finance Campaign Co-Manager, Oil Change International).

34 Office of the Auditor General of Canada, [Audit at a Glance Report 7—Fossil Fuel Subsidies](#).



Government of Canada’s implementation of it.<sup>35</sup> Grand Chief Stewart Phillip, President of the Union of British Columbia Indian Chiefs, commented that with the passage of federal UNDRIP legislation, the Committee should hear directly from the Indigenous peoples on whose lands the fossil fuel sector’s activities are taking place.<sup>36</sup> He added,

the *Implementing UNDRIP Act* recognizes the right of Nations to participate in the governance of their own territories and resources; deciding how the federal government should subsidize the activities of the fossil fuel sector has direct implications on the needs and interests of those Nations, and the committee should make every attempt to include them in these proceedings.<sup>37</sup>

## FOSSIL FUEL SUBSIDIES: EXISTING DEFINITIONS

A number of definitions of “fossil fuel subsidies” have been established. Definitions of fossil fuel subsidies vary in how broadly they include other government supports for fossil fuels. For example, while the World Trade Organization (WTO) definition focuses on financial contributions by government and public bodies, the Organisation for Economic Co-operation and Development (OECD) also considers what it calls “supports,”<sup>38</sup> in its inventory of support measures for fossil fuels that covers 51 countries and economies. Such supports include any policies that could induce changes in the relative prices of fossil fuels.<sup>39</sup> Analysis from the International Monetary Fund (IMF) goes further, including certain externalities, such as the environmental costs resulting from air pollution from fossil fuel burning, in its assessment of fossil fuel subsidies.<sup>40</sup> Selected definitions are presented in Table 1.

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35 Sections 4a and 4b, [United Nations Declaration on the Rights of Indigenous Peoples Act S.C. 2021, c. 14](#), 2021.

36 Grand Chief Stewart Phillip, [Speaking Notes for GCSP: House of Commons Standing Committee on Environment and Sustainability](#), p. 1, 31 March 2022. Appended to ENVI, [Evidence](#), 31 March 2022.

37 Ibid.

38 Organisation for Economic Co-operation and Development [OECD], [“Methodology,” OECD Work on Support for Fossil Fuels](#).

39 Ibid.

40 David Coady, Ian Parry, Nghia-Piotr Le, and Baoping Shang, International Monetary Fund [IMF], [Global fossil fuel subsidies remain large: An update based on country-level estimates](#), May 2019.

**Table 1—Definition of a Fossil Fuel Subsidy From Selected Organizations**

Organization	Definition
World Trade Organization (WTO)	A subsidy has “three basic elements: (i) a financial contribution; (ii) by a government or any public body within the territory of a Member; (iii) which confers a benefit. All three of these elements must be satisfied in order for a subsidy to exist.”
United Nations Environment Program (UNEP)	Uses the WTO definition
Organisation for Economic Co-operation and Development (OECD)	The OECD’s approach “measures fossil fuel support as all direct budgetary transfers and tax expenditures that provide a benefit or preference for fossil-fuel production or consumption. The definition of support, as opposed to subsidy, is a deliberately broader one, which encompasses policies that can induce changes in the relative prices of fossil fuels.”
International Monetary Fund (IMF)	<p>“Pre-tax consumer subsidies exist when energy consumers pay prices that are below the costs incurred to supply them with this energy.”</p> <p>“Post-tax consumer subsidies exist if consumer prices for energy are below supply costs plus the efficient levels of taxation. The efficient level of taxation includes two components. First, energy should be taxed the same way as any other consumer product. Second, some energy products contribute to local pollution, traffic congestion and accidents, and global warming-efficient taxation requires that the price of energy should reflect these adverse effects on society. In most countries, taxes on energy fall far short of the efficient levels.”</p> <p>“Producer subsidies exist when producers receive either direct or indirect support that increases their profitability above what it otherwise would be.”</p>
International Energy Agency (IEA)	An energy subsidy is “any government action that concerns primarily the energy sector that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by energy consumers.”



Organization	Definition
World Bank	<p>A subsidy for fossil fuels is “a deliberate policy action by the government that specifically targets fossil fuels, or electricity or heat generated from fossil fuels, and has one or more of the following effects:</p> <ul style="list-style-type: none"> <li>• reducing the net cost of energy purchased;</li> <li>• reducing the cost of production or delivery of fuels, electricity, or heat; and</li> <li>• increasing revenues retained by resource owners, or suppliers of fuel, electricity, or heat.</li> </ul> <p>The definition excludes policy actions that achieve these effects through promotion of efficiency improvement along the supply chain, greater competition in the market, or other improvements in market conditions.”</p>

Sources: Table prepared by the Library of Parliament using data obtained from World Trade Organization, [Subsidies and Countervailing Measures: Overview](#) [note that the full [Agreement on Subsidies and Countervailing Measures](#) is also available]; Organisation for Economic Co-operation and Development, “[Methodology](#),” OECD work on support for fossil fuels; International Monetary Fund, [Climate Change: Fossil Fuel Subsidies: Measuring Fossil Fuel Subsidies](#); International Energy Agency, [Carrots and Sticks: Taxing and Subsidising Energy](#), Report, January 2006; and Masami Kojima and Doug Kaplow, World Bank Group, [Fossil fuel subsidies: approaches and valuation](#), March 2015.

The Canadian Association of Petroleum Producers (CAPP) takes the position that “tax measures for the natural gas and oil industry are not subsidies” but are rather “included to ensure the neutrality of the tax system between sectors that differ in their capital intensity, revenue stream generation, and production/life cycles thereby removing the tax bias against them.”<sup>41</sup>

A number of witnesses stated that the WTO’s definition was well established and widely used internationally;<sup>42</sup> Jason MacLean, who is Assistant Professor at the Faculty of Law, University of New Brunswick, and conducts research focused on environmental law, summed the definition up in plain language: “A subsidy is a financial contribution by a government or any public body that confers a benefit.”<sup>43</sup>

41 Canadian Association of Petroleum Producers (CAPP), [Economic Competitiveness](#).

42 ENVI, [Evidence](#), 26 April 2022, 1105 (Jason MacLean); ENVI, [Evidence](#), 26 April 2022, 1235 (Aaron Cosbey); ENVI, [Evidence](#), 5 May 2022, 1225 (Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch, Department of Finance).

43 ENVI, [Evidence](#), 26 April 2022, 1105 (Jason MacLean).

The word inefficient, however, does not have a well established definition in this context, as discussed further in the section entitled “Review of the definition of an inefficient subsidy”.

## **GOVERNMENT OF CANADA COMMITMENTS RELATED TO PHASING OUT SUPPORT FOR FOSSIL FUELS**

This study considers two main commitments related to federal support for the fossil fuel sector/industry that have been made by the Canadian Government:

- A 2009 commitment by the Group of 20 (G20) to eliminate inefficient fossil fuel subsidies.
- A commitment to develop a plan to phase out public financing for the fossil fuel sector, which was formalized in several Ministers’ mandate letters in October 2021.

### **Group of 20 Commitment to Reduce Fossil Fuel Subsidies**

In 2009, members of the Group of 20 (G20) countries agreed to work in coordination to reduce fossil fuel subsidies. Following their 2009 summit in Pittsburgh, United States, G20 leaders agreed in the G20 Leaders Statement, to “phase out and rationalize<sup>44</sup> over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest.” According to their statement, “[i]nefficient fossil fuel subsidies encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change.”<sup>45</sup> However, as illustrated above, there is no universally endorsed definition of what an inefficient fossil fuel subsidy is. This is discussed further in a later section.

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44 The Department of Finance Canada informed the Office of the Auditor General that, with respect to tax measures, the term “rationalize” refers to a reform that removes the subsidy element of the tax measure. For example, rationalization would include the reduction of a tax deduction rate to what is considered a normal or neutral taxation rate for particular types of expenses. (Office of the Auditor General of Canada, 2017 Spring Reports of the Auditor General of Canada to the Parliament of Canada, “[Report 7—Fossil Fuel Subsidies](#).” 7.26.)

45 G20 Information Centre, [G20 Leaders Statement: The Pittsburgh Summit](#), 24–25 September 2009.



Canada's initial G20 commitment was to eliminate inefficient fossil fuel subsidies by 2025,<sup>46</sup> but this timeline was accelerated in 2021, with a goal of completing the task by 2023.

## **Eliminating Subsidies and Phasing Out Public Financing for Fossil Fuels: Commitments Announced in Ministerial Mandate Letters**

In December 2021, the Minister of Environment and Climate Change Mandate Letter instructed the Minister of Environment to work with the Deputy Prime Minister and Minister of Finance, with the support of the Minister of Natural Resources, "to accelerate our G20 commitment to eliminate fossil fuel subsidies from 2025 to 2023, and develop a plan to phase out public financing of the fossil fuel sector, including by federal Crown corporations."<sup>47</sup> The Deputy Prime Minister and Minister of Finance Mandate Letter<sup>48</sup> gave the same instructions and added that flow-through shares for oil, gas and coal should be eliminated. Their elimination was to be completed by 31 March 2023.<sup>49</sup>

Flow-through shares are described as follows: "A flow-through share allows a corporation to obtain financing for expenditures on exploration and development in Canada. By issuing flow-through shares, a company can 'flow through' certain expenses

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46 ECC, [\*Discussion Document for Canada's Assessment Framework of Inefficient Fossil Fuel Subsidies\*](#), 2019, p. 1.

47 Prime Minister of Canada, [\*Minister of Environment and Climate Change Mandate Letter\*](#), 16 December 2021.

48 Prime Minister of Canada, [\*Deputy Prime Minister and Minister of Finance Mandate Letter\*](#), 16 December 2021.

49 Government of Canada, [\*Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable\*](#), 2022, p. 99.

to the share purchaser. These expenses are then deemed to have been incurred by the investor,<sup>50</sup> not the corporation, which can reduce the investor's taxable income."<sup>51</sup>

The federal government has also made other, related commitments and statements; a selection of these is summarized in Table 2, along with the two being studied here.

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50 For individual investors, the advantages can be twofold:

At the federal level, they receive a 100% tax deduction for the amount they invested in flow-through shares (FTS), plus a 15 per cent tax credit in the case of an eligible mining expense.

They may see their investment appreciate if the exploration is successful.

FTS-issuing corporations do not have to be Canadian, but it must be Canadian taxpayers that incur the expenses in Canada on qualified activities. Resource expenses that may be flowed through include Canadian exploration expenses and certain Canadian development expenses.

See: Office of the Parliamentary Budget Officer [PBO], [\*Energy sector and agriculture: federal revenue forgone from tax provisions\*](#), 7 December 2021, p. 18.

The Committee notes that provincial governments may add an extra tax credit on top of the tax credit granted by the federal government.

51 Office of the Parliamentary Budget Officer [PBO], [\*Energy sector and agriculture: federal revenue forgone from tax provisions\*](#), 7 December 2021, p. 18.



**Table 2—International Commitments and Statements Made by Canada’s Federal Government to Address “Inefficient Fossil Fuel Subsidies”**

Date	Commitment or Statement	Context
Sept. 2009	“[P]hase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest.” <sup>52</sup>	G20 Summit in Pittsburgh, USA
May 2012	“In addition, we strongly support efforts to rationalize and phase-out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption, and to continue voluntary reporting on progress.” <sup>53</sup>	G8 Summit in Camp David, USA
Sept. 2015	In 2015, Canada and 192 other United Nations (UN) member states adopted the 2030 Agenda for Sustainable Development (the 2030 Agenda), which is a global framework for achieving 17 Sustainable Development Goals (SDGs). SDG 12, which concerns responsible consumption and production patterns, has 11 targets. One of these, known as Target 12.C, is to “rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts.” <sup>54</sup>  A 2019 report from UNEP <sup>55</sup> outlines the methods used to assess the indicator for this target.	Agenda 2030 (Sustainable Development Goals)
Nov. 2021	Parties are called on to accelerate “efforts towards the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies while providing targeted support to the poorest and most vulnerable in line with national circumstances and recognizing the need for support towards a just transition” <sup>56</sup>	COP26—Glasgow Climate Pact

52 G20 Information Centre, [G20 Leaders Statement: The Pittsburgh Summit](#), 24–25 September 2009.

53 G7 Information Centre, [Camp David Declaration](#), 19 May 2012.

54 SDG Tracker, “[Target 12.C: Remove market distortions that encourage wasteful consumption](#)” *Ensure sustainable consumption and production patterns*.

55 UNEP, [Measuring fossil fuel subsidies in the context of the sustainable development goals](#), 2019.

56 UN, Framework Convention on Climate Change, [Glasgow Climate Pact](#), 13 November 2021, article 36.



Date	Commitment or Statement	Context
Nov. 2021	"[P]rioritise our support fully towards the clean energy transition" and "further prioritize support for clean technology and end new direct public support for the international unabated fossil fuel sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with the 1.5 degree Celsius warming limit and the goals of the Paris Agreement." <sup>57</sup>	Statement on International Public Support for the Clean Energy Transition <sup>58</sup> (made at COP26)—referred to as "Glasgow Commitment"
Dec. 2021	"[A]ccelerate our G20 commitment to eliminate fossil fuel subsidies from 2025 to 2023, and develop a plan to phase out public financing of the fossil fuel sector, including by federal Crown corporations" <sup>59</sup>	Ministerial Mandate Letters

Source: Table prepared by the Library of Parliament.

## VIEWS ON PHASING OUT GOVERNMENT SUPPORT

No witnesses or briefs expressed concern that the federal government had phased out a number of fossil fuel supports over recent years. Tristan Goodman, President and Chief Executive Officer of the Explorers and Producers Association of Canada, noted that the production of oil and natural gas, which had warranted government support 30 to 50 years ago, no longer required such support.<sup>60</sup> Not all witnesses supported the idea of eliminating subsidies and supports altogether, however.

Ben Brunnen, who is Vice-President of Oil Sands, Fiscal and Economic Policy at CAPP, pointed out that Canadian [federal and provincial] governments currently benefit from taxes and royalties paid by fossil fuel companies: "Limiting access to capital or increasing taxes will only have negative effects on Canada's economy, energy affordability, emissions reduction progress and global energy security," he stated, indicating that

57 NRCan, [Canada announces commitment to end new direct public support for the international unabated fossil fuel sector by the end of 2022](#), 4 November 2021.

58 UN Climate Change Conference UK 2021, [Statement on International Public Support for the Clean Energy Transition](#), 2021.

59 Prime Minister of Canada, [Deputy Prime Minister and Minister of Finance Mandate Letter](#), 16 December 2021.

60 ENVI, [Evidence](#), 29 March 2022, 1115 (Tristan Goodman, President and Chief Executive Officer, Explorers and Producers Association of Canada).



“total government revenues for our industry could be as high as \$20 billion this year, including \$5 billion in unanticipated incremental federal revenue.”<sup>61</sup>

Mark Agnew, the Senior Vice-President of Policy and Government Relations at the Canadian Chamber of Commerce, commented that immense capital investment is needed in the transition to net zero, and that the transition would be much more difficult if oil and gas companies did not have access to tax credits for carbon capture, utilization, and storage (CCUS) or initiatives like the Net-Zero Accelerator.<sup>62</sup> Heather Exner-Pirot, a Senior Policy Analyst at the Macdonald-Laurier Institute, spoke about government funding programs that have helped the fossil fuel sector to reduce its emissions, and felt that such programs should be continued because they can support reduction of GHG emissions and access to affordable energy.<sup>63</sup> Mr. Agnew also felt that businesses need “predictability in the funding streams that [they] can tap into,”<sup>64</sup> suggesting making the Net-Zero Accelerator initiative a permanent source of funding. If oil and gas companies did not have access to such initiatives, he said, the transition towards net zero would be much more difficult.<sup>65</sup>

Ben Brunnen mentioned the decreasing emissions intensity of Canadian oil and gas extraction, and the commitment to net-zero emissions by 2050 made by the Oil Sands Pathways Alliance,<sup>66</sup> suggesting that global emissions could be lower if Canadian oil and gas were used instead of more carbon-intensive fuels from elsewhere.<sup>67</sup>

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61 ENVI, [Evidence](#), 29 March 2022, 1205 (Ben Brunnen, Vice-President, Oil Sands, Fiscal and Economic Policy, Canadian Association of Petroleum Producers).

62 ENVI, [Evidence](#), 29 March 2022, 1105 (Mark Agnew, Senior Vice-President, Policy and Government Relations, Canadian Chamber of Commerce).

63 ENVI, [Evidence](#), 31 March 2022, 1940 (Heather Exner-Pirot, Senior Policy Analyst, Macdonald-Laurier Institute).

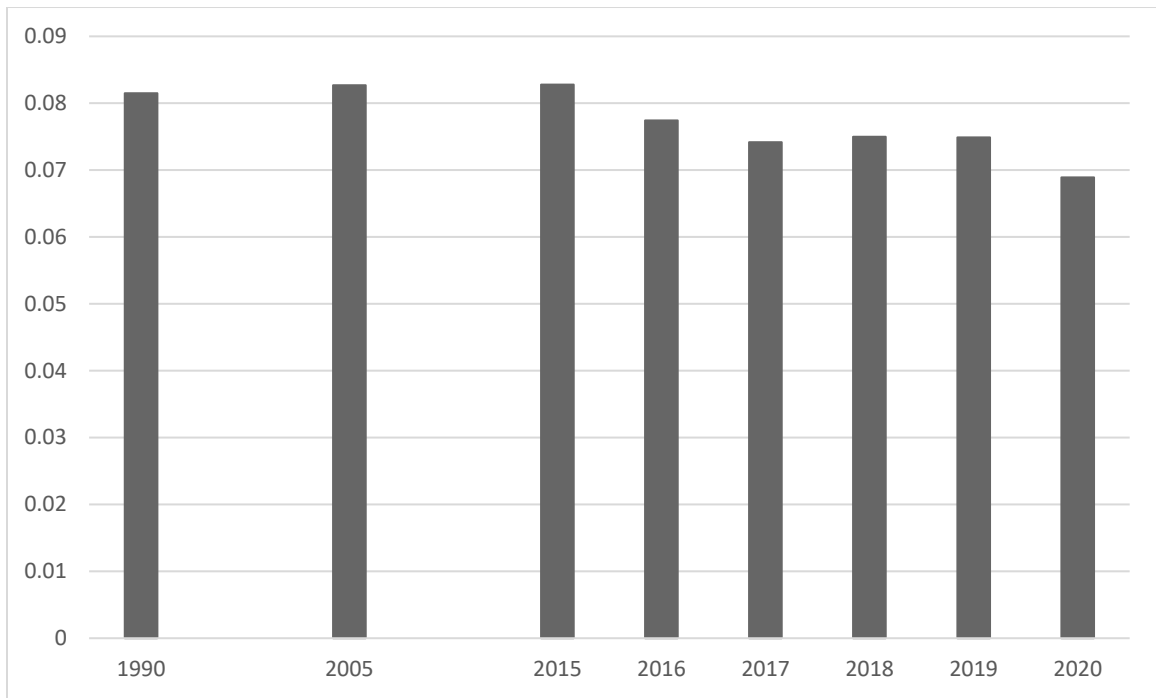
64 ENVI, [Evidence](#), 29 March 2022, 1120 (Mark Agnew).

65 ENVI, [Evidence](#), 29 March 2022, 1105 (Mark Agnew).

66 ENVI, [Evidence](#), 29 March 2022, 1205 (Ben Brunnen).

67 ENVI, [Evidence](#), 29 March 2022, 1220 (Ben Brunnen).

**Figure 1—Emissions per million barrels equivalent from Canadian oil and gas production, in megatonnes of carbon dioxide equivalent (Mt CO<sub>2</sub> eq)/million barrels equivalent**



Source: Prepared by the Committee with data from: Government of Canada, [Options to cap and cut oil and gas sector greenhouse gas emissions to achieve 2030 goals and net-zero by 2050—discussion document](#).

On the other hand, many witnesses and authors of briefs felt it was important to phase out subsidies and public financing for fossil fuels, arguing that such supports slow and hinder the transition to renewable energy, which they saw as necessary and urgent for reducing the impacts of climate change<sup>68</sup> and that they felt that these tax dollars could be better employed by direct investment in, or subsidies to, the renewables sector.

68 E.g. ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker); ENVI, [Evidence](#), 29 March 2022, 1215 (Joy Aeree Kim, Lead, Fiscal Policy, United Nations Environment Programme); ENVI, [Evidence](#), 26 April 2022, 1105 (Jason MacLean); ENVI, [Evidence](#), 31 March 2022, 1830 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute). SFU350, "[Brief submitted to ENVI](#)," May 2022; United Nations Environment Programme, "[Brief submitted to ENVI](#)," March 2022; Above Ground, "[Ending Canada's Public Finance for Fossil Fuels](#)," Brief submitted to ENVI, May 2022; LeadNow Society, "[Brief submitted to ENVI](#)," May 2022; Center for International Environmental Law, "[Brief submitted to ENVI](#)," May 2022; Climate Emergency Institute, "[Brief submitted to ENVI](#)," May 2022; Jennifer Boudreau, Annie Chaloux and Philippe Simard, [Eliminating Fossil Fuel Subsidies: Consistency in Canada's Climate Policy and in Honouring our Commitments](#), Brief submitted to ENVI, April 2022; Onni Milne, "[Brief submitted to ENVI](#)," May 2022.



Jason MacLean shared an opinion based on his work:

Climate modelling now shows that, in order to have only a 50% chance of limiting global warming to 1.5°C above the pre-industrial norm, rich producer countries, including Canada, must cut oil and gas production by 74% by 2030 and completely phase out oil production by 2034. Removing all fossil fuel subsidies is an important step toward this larger climate and energy policy goal.<sup>69</sup>

Jerry DeMarco, who is the Commissioner of the Environment and Sustainable Development in the Office of the Auditor General, pointed out that “[d]espite repeated government commitments and plans to decrease greenhouse gas emissions, they increased by more than 20% from 1990 to 2019. Urgent actions are needed to reverse this trend.”<sup>70</sup> Annie Chaloux, who is Associate Professor and Climate Policy Specialist at the Université de Sherbrooke, David Gooderham, and Eddy Pérez, who is the International Climate Diplomacy Manager at Climate Action Network Canada agreed, the latter stating that eliminating fossil fuel subsidies can help “reduce global GHG emissions by as much as 10% by 2030.”<sup>71</sup>

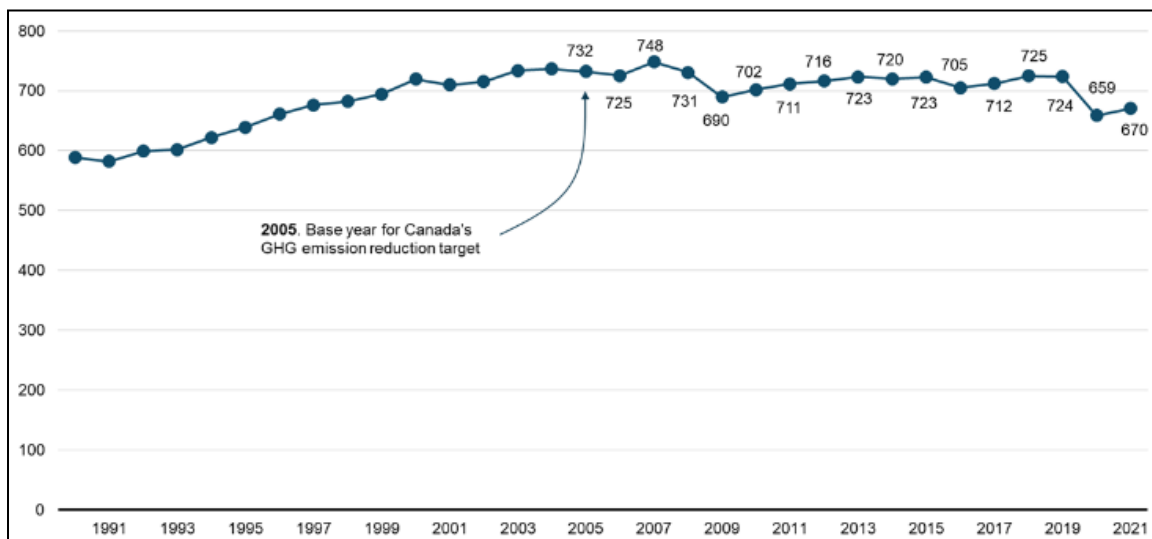
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69 ENVI, [Evidence](#), 26 April 2022, 1105 (Jason MacLean).

70 ENVI, [Evidence](#), 5 April 2022, 1105 (Jerry V. DeMarco); ENVI, [Evidence](#), 31 March 2022, 1835 (Julia Levin).

71 ENVI, [Evidence](#), 5 April 2022, 1100 (Eddy Pérez); ENVI, [Evidence](#), 26 April 2022, 1205 (Annie Chaloux); ENVI, [Evidence](#), 31 March 2022, 1955 (David Gooderham).

**Figure 2—Canada's Greenhouse gas emissions from 1990 to 2021, in megatonnes of carbon dioxide equivalent (Mt CO<sub>2</sub> eq)**



Source: Government of Canada, [Greenhouse gas emissions](#).

Joy Aeree Kim, who is Lead of Fiscal Policy at UNEP, explained that countries around the world are struggling to respond to the pandemic, build resilience to climate change, and get back on track to achieving the sustainable development goals, and that “reform of fossil fuel subsidies represents a large potential source [of funds] for social and green investment.”<sup>72</sup> She suggested that “just 10% to 30% of global fossil fuel subsidies could pay for the transition to a clean economy at the global level.”<sup>73</sup>

Dale Beugin, Vice-President of Research and Analysis at the Canadian Climate Institute, told the Committee that phasing out fossil fuel subsidies makes economic sense as much as environmental sense: Countries and firms representing 90% of global gross domestic product (GDP) have committed to achieving net zero, he noted, and if they follow through on those commitments, “that represents a seismic shift in demand for fossil fuel products and absolutely changes the long-term payoffs of investments, both public and private, in the sector.”<sup>74</sup> The global transition to a low-carbon economy is “a structural shift, not a temporary shock,” he said, and the government needs to develop strategies that help the affected sectors and regions to prepare to thrive in the emerging low-

72 ENVI, [Evidence](#), 29 March 2022, 1215 (Joy Aeree Kim).

73 Ibid.

74 ENVI, [Evidence](#), 31 March 2022, 1850 (Dale Beugin).



carbon economy, rather than attempting to insulate them from market change.”<sup>75</sup>

He added:

[T]he fossil fuel sector is no longer the secure source of economic growth and job creation that it once was. Coal, oil and gas demand will decline globally, though there is uncertainty on the timing and slope of that decline over the next decade. Public investment in long-lived fossil fuel assets now carries more risk and less certain benefits for society, even within the context of current upheavals in energy markets.<sup>76</sup>

One brief summarized input from over eight thousand people who expressed almost unanimous support for ending all fossil fuel subsidies and 84% support for expanding the definition of a fossil fuel subsidy to include all public financing and other fiscal support provided to the oil and gas sector.”<sup>77</sup>

### **Recommendation 1**

**That the Government of Canada continue taking steps to eliminate subsidies and applicable public financing for the fossil fuel sector by the end of 2023, with careful attention to and mitigation of any potential social and economic impacts.**

### **Recommendation 2**

**That the Government of Canada ensure that Canada’s commitment to eliminate inefficient fossil fuel subsidies aligns with and provides policy coherence to Canada’s domestic public financing policy.**

## **REVIEW OF THE DEFINITION OF AN INEFFICIENT SUBSIDY**

### **Definitions Used by Government Departments and Agencies**

Government departments’ efforts to define inefficient fossil fuel subsidies have been audited several times by the Commissioner of the Environment and Sustainable Development (CESD). The CESD’s 2017 reports found that neither Finance Canada nor Environment and Climate Change Canada (ECCC) had a clear definition of inefficient

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75 ENVI, *Evidence*, 31 March 2022, 1830 (Dale Beugin).

76 Ibid.

77 LeadNow Society, “[Brief submitted to ENVI](#),” May 2022.

fossil fuel subsidies. “Without a clear definition of what it is they've committed to phasing out, it's hard to phase that out,” noted the current CESD, Jerry DeMarco.<sup>78</sup>

Mr. DeMarco added that “[i]n 2019, we found that Finance Canada still did not have a clear and meaningful definition of inefficient. It focused on fiscal and economic considerations, but did not consider economic, social and environmental factors, which are components of sustainable development in decision-making on fossil fuel subsidies over the short, medium and long term.”<sup>79</sup>

When asked about the status of the definition that the department is working on, ECCC officials did not provide a precise timeline for when the definition of “inefficient” would be ready. Hilary Geller, the Assistant Deputy Minister, Strategic Policy Branch at ECCC, said, “[w]e're on a timeline to be able to provide advice to the government so that it can make decisions in time to have the phase-out of the non-tax inefficient fossil fuel subsidies done in 2023, as per their mandate commitments.”<sup>80</sup>

Mairead Lavery, President and Chief Executive Officer of Export Development Canada (EDC), said that EDC’s work “with our partners is to ensure we are really supporting commercial partners, like our banks, and ensuring that we're not conferring a subsidy. We are at market rates.”<sup>81</sup> She said she was not aware of the internationally agreed-upon definition of a subsidy<sup>82</sup> but stated that EDC does not provide grants or subsidies.<sup>83</sup>

## Canada’s Consultation Process on Inefficient Fossil Fuel Subsidies

Witnesses did not mention it during the study, but in 2019, ECCC held a three-month consultation process on the government’s draft framework that could be used to identify inefficient, non-tax fossil fuel subsidies.<sup>84</sup> The associated *Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies* proposed the following definition: “non-tax fossil fuel subsidies are defined as federal non-tax

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78 ENVI, *Evidence*, 5 April 2022, 1115 (Jerry V. DeMarco).

79 Ibid.

80 ENVI, *Evidence*, 5 May 2022, 1205 (Hilary Geller, Assistant Deputy Minister, Strategic Policy Branch, Department of the Environment).

81 ENVI, *Evidence*, 26 April 2022, 1140 (Mairead Lavery, President and Chief Executive Officer, Export Development Canada).

82 Ibid.

83 ENVI, *Evidence*, 26 April 2022, 1110 (Mairead Lavery).

84 ECCC, *Minister McKenna announces consultations on eliminating inefficient non-tax fossil fuel subsidies*, News release, 29 March 2019.

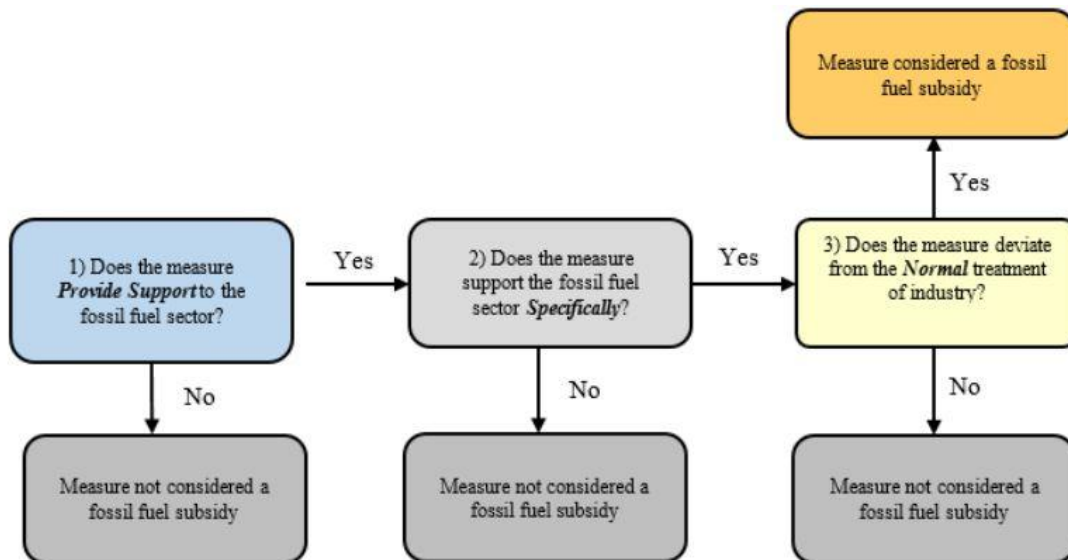


programs that provide preferential treatment that specifically supports the production or consumption of fossil fuels.”<sup>85</sup>

The discussion document also suggested criteria to consider when assessing the efficiency of an identified non-tax fossil fuel subsidy. These included consideration of alternative delivery mechanisms that could achieve the same policy outcome(s), of whether a measure intends to achieve social, economic, and environmental objectives, and of whether alternatives to the measure could achieve the same objective(s) more effectively, more efficiently, and/or in a more equitable manner.<sup>86</sup>

The discussion document also describes ECCC’s assessment process for 36 non-tax measures to determine if they were inefficient fossil fuel subsidies (illustrated in Figure 3).

**Figure 3—Flowchart of Environment and Climate Change Canada’s 2019 Assessment Process to Identify Fossil Fuel Subsidies**



Source: Environment and Climate Change Canada, [Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies](#), p. 8.

85 ECCC, [Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies](#), p. 6.

86 *Ibid.*, pp. 8–9.



Of the 36 measures assessed, four were found to be subsidies, as outlined in Table 3. None of these four subsidies was found to be inefficient and, therefore, none would need to be phased out “within the scope of the G20 commitment.”<sup>87</sup>

**Table 3—Four Remaining Fossil Fuel Subsidies Identified by ECCC in 2019 of the List of 36 Measures Assessed to Identify Inefficient Fossil Fuel Subsidies**

Federal Department Responsible	Program Name	Type of Measure
Indigenous Services Canada	Electricity Price Support for Indigenous Communities	General Program Support
Natural Resources Canada	Electric Vehicle and Alternative Fuel Infrastructure Deployment	General Program Support
Natural Resources Canada	Petroleum Technology Research Centre (a not-for-profit founded in 1998 by NRCan, the Government of Saskatchewan, University of Regina, and Saskatchewan Research Council, to “facilitate research, development and demonstration projects to reduce the carbon footprint and increase the production of subsurface energy.” <sup>88</sup> )	Technology and research development programs
Natural Resources Canada	Oil and Gas Clean Tech Program (ended 2017–18)	Technology and research development programs

Source: Extracted from: Environment and Climate Change Canada [ECCC], [Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies](#), pp. 14–16.

## Other Views on Definitions

Many witnesses had views on the interpretation of “inefficient” fossil fuel subsidies. Grand Chief Stewart Phillip commented that a commitment to phase out “inefficient” subsidies for “unabated” fossil fuel use, is much too vague, and “leaves an incredible amount of wiggle room for the industry to continue fueling the climate crisis and delaying real emissions reductions.”<sup>89</sup>

87 ECCC, [Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies](#), pp. 14–16.

88 Petroleum Technology Research Centre, [About PTRC](#).

89 Grand Chief Stewart Phillip, [Speaking Notes for GCSP: House of Commons Standing Committee on Environment and Sustainability](#), p. 2, 31 March 2022. Appended to ENVI, [Evidence](#), 31 March 2022.



Jason MacLean stated that “[t]here is no basis in international law or policy for distinguishing between efficient and inefficient subsidies, nor is there any basis for adopting a narrow definition of the term “subsidy” in relation to fossil fuels.”<sup>90</sup>

Joy Aeree Kim drew attention to a 2019 UNEP report<sup>91</sup> that defines fossil fuel subsidies, pointing out that while some G20 members have developed other definitions, there is, already, an internationally agreed upon definition of and methodology for measuring and reporting on fossil fuel subsidies, which was adopted by the UN Inter-agency and Expert Group on SDGs.<sup>92</sup> UNEP, as custodian agency of SDG 12.1.C, developed the methodology, together with the OECD: “It [is] an internationally agreed upon definition and methodology that was actually recommended to all of the member countries to follow,” she said.<sup>93</sup>

Ben Brunnen noted that what he called “clean-tech investment supports” such as CCUS and the Net-Zero Accelerator could be identified as “efficient in the sense that they are working towards achieving investment in technologies that will reduce emissions.”<sup>94</sup> Julia Levin, who is Senior Climate and Energy Program Manager at Environmental Defense Canada, saw the \$8 billion dollar Net-Zero Accelerator as a potential source of fossil fuel subsidies, and recommended that “strict climate conditions” or legislation be applied to ensure that this did not happen.<sup>95</sup>

Mark Agnew suggested that the precise definition may not matter as much as the policy intention: “The risk is that we spend a lot of time chasing our tails in trying to define it but not really getting to the nub of the issue,”<sup>96</sup> he said. Several other witnesses shared the idea that this definition itself is less important than the framework for deciding how to spend public dollars, as outlined below.

Jerry DeMarco suggested that the main action required is for Canada to assess all of its supports for the fossil fuel industry against how they will “foster or hinder Canada’s

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90 ENVI, [Evidence](#), 26 April 2022, 1105 (Jason MacLean).

91 UNEP, [Measuring fossil fuel subsidies in the context of the sustainable development goals](#), 2019.

92 ENVI, [Evidence](#), 29 March 2022, 1225 (Joy Aeree Kim).

93 Ibid.

94 ENVI, [Evidence](#), 29 March 2022, 1225 (Ben Brunnen).

95 ENVI, [Evidence](#), 31 March 2022, 1905 (Julia Levin).

96 ENVI, [Evidence](#), 29 March 2022, 1120 (Mark Agnew).

transition to net-zero emissions,"<sup>97</sup> rather than dwelling on definitions.<sup>98</sup> He acknowledged that Canada made a commitment in 2009 to remove inefficient fossil fuel subsidies, but emphasized that the more important focus should be on choosing policy measures that reduce GHG emissions. Simon Langlois-Bertrand, who is a Research Associate at the Trottier Energy Institute, and Aaron Cosbey, who is Senior Associate at the International Institute for Sustainable Development, agreed.<sup>99</sup> Aaron Cosbey said:

The really important question is not, is this dollar spent on a subsidy? The really important question is, is this dollar spent in a way that is a good use of public funds? The criterion for that is not the same as whether it's a subsidy or not; the criterion is whether it is in line with our *Paris Agreement* targets. Is it an efficient use of funds, considering the target? Are there better ways you could use that money and are you contributing to the risk of stranded assets? Those are the kinds of criteria we really need to be worrying about.<sup>100</sup>

Simon Langlois-Bertrand emphasized that government support for industry should be conducive to achieving decarbonization targets and should ensure continued support for industries and populations affected by the energy transition.<sup>101</sup> This cannot include renewal or expansion of infrastructure that favours the maintenance or increase of greenhouse gas emissions, he clarified, such as the natural gas network, heating infrastructure based on fossil fuels; and vehicles using fossil fuels."<sup>102</sup>

Dale Beugin referenced a recent paper published by the Canadian Institute for Climate Choices,<sup>103</sup> which assessed whether government measures support or hinder "Canada's long-term economic growth and a smooth transition for workers and communities, especially in the face of the accelerating decarbonization in global markets."<sup>104</sup> Rather than focusing on definitions of "subsidy" and "inefficiency," he explained, they opted to

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97 ENVI, [Evidence](#), 5 April 2022, 1105 (Jerry V. DeMarco).

98 ENVI, [Evidence](#), 5 April 2022, 1115 (Jerry V. DeMarco).

99 ENVI, [Evidence](#), 5 April 2022, 1150 (Simon Langlois-Bertrand, Research Associate, Trottier Energy Institute); ENVI, [Evidence](#), 26 April 2022, 1235 (Aaron Cosbey).

100 ENVI, [Evidence](#), 26 April 2022, 1235 (Aaron Cosbey).

101 ENVI, [Evidence](#), 5 April 2022, 1105 (Simon Langlois-Bertrand).

102 Ibid.

103 Canadian Institute for Climate Choices, *Sink or Swim: [Transforming Canada's economy for a global low-carbon future](#)*, October 2021.

104 ENVI, [Evidence](#), 31 March 2022, 1830 (Dale Beugin).



assess policy according to four key criteria: “transition consistency, value for money, employment outcomes and policy fit.”<sup>105</sup>

In a brief published after the Committee had finished hearing from witnesses, the International Institute for Sustainable Development (IISD) recommended the following criteria for assessing the efficiency of fossil fuel subsidies in Canada: “alignment with climate commitments; support for the low carbon economy; just transition consistency; [and] the best way to achieve the overall policy goal.”<sup>106</sup>

Jerry DeMarco suggested that Canada needs to assess all of its supports for the fossil fuel industry against how they will foster or hinder Canada’s transition to net-zero emissions.<sup>107</sup>

### **Recommendation 3**

**That the Government of Canada assess planned and proposed policy measures based on whether they support or hinder Canada's long-term economic growth and a smooth transition for workers and communities, especially in the face of the accelerating decarbonization in global markets.**

### **Recommendation 4**

**That the Government of Canada take steps to ensure that public funds cannot be invested in any energy infrastructure that is at risk of becoming a “stranded asset” during the energy transition.**

### **Recommendation 5**

**That the Government of Canada ensure that any subsidy it offers facilitates the transition toward a low-carbon future, and is consistent with Canada’s 2026 emissions objective, 2030 emissions reduction goals and its 2050 net zero emissions goals.**

### **Recommendation 6**

**That the Government of Canada adopt:**

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105 Ibid.

106 IISD, Émile Boisseau-Bouvier, Laura Cameron, [Identifying Inefficient Fossil Fuel Subsidies in Canada](#), 28 July 2022.

107 ENVI, [Evidence](#), 5 April 2022, 1105 (Jerry V. DeMarco).

- a broad, internationally recognized definition of a fossil fuel subsidy; and
- a definition of “inefficient,” in the context of fossil fuel subsidies.

#### Recommendation 7

That the Government of Canada develop a framework for decision-making related to supports for the oil and gas industry that is based on analysis and assessment of the most cost-effective way to achieve greenhouse gas reductions while considering the needs of workers and communities.

#### Recommendation 8

That the Government of Canada, inclusive of Canadian Crown Corporations, publish, before the end of 2023, its plan to phase out public financing of the fossil fuel sector, and that the plan be ready for implementation.

### **PROGRESS TO DATE: PHASING OUT PUBLIC FINANCING OF THE FOSSIL FUEL SECTOR, INCLUDING BY FEDERAL CROWN CORPORATIONS**

Mandate letters from 16 December 2021 asked three Canadian ministers to develop a plan to phase out public financing of the fossil fuel sector, including by federal Crown corporations. The Committee heard that work on the public financing commitment is still at the planning stage.<sup>108</sup> In December 2022, the Government of Canada announced that it would end new direct public support for international unabated fossil fuel energy by the end of that year; it also “recognized the need to eliminate inefficient fossil fuel subsidies domestically” and committed to “eliminating additional significant fossil fuel subsidies early in 2023.”<sup>109</sup>

EDC, which is a crown corporation, is taking steps to reduce its support for the fossil fuel sector, and Hillary Geller noted that ECCC anticipated that EDC would be included when work begins on the plan to phase out public financing for the fossil fuel sector.<sup>110</sup> A

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108 ENVI, *Evidence*, 5 May 2022, 1215 (Hillary Geller).

109 Government of Canada, [Government of Canada Delivers on Key International Climate Commitment to End New Public Support for the International Unabated Fossil Fuel Energy Sector](#) (News Release), 8 December 2023.

110 ENVI, *Evidence*, 5 May 2022, 1215 (Hillary Geller).



selection of EDC's steps to shift its financing to respond to climate change are outlined in a later section.<sup>111</sup>

## Export Development Canada's Supports for the Fossil Fuel Sector

In 2022, EDC announced a target of 45% reduction in financing exposure to the six most carbon-intensive sectors below 2018 levels by 2023 (as shown in Figure 4). EDC considers the six following sectors to be carbon intensive:<sup>112</sup>

- airlines;
- upstream and oil and gas operations;
- petrochemicals, refining and chemicals manufacturing;
- metals smelting and processing;
- thermal power generation; and
- cement manufacturing.<sup>113</sup>

In EDC's determination, these carbon-intensive sectors are "more susceptible to higher risks related to a transition to a low-carbon economy."<sup>114</sup> Risks EDC identifies from the transition to a low-carbon economy include:

[P]olicy and legal risks such as policy constraints on emissions, imposition of carbon tax and other applicable policies; water or land use restrictions or incentives; shifts in demand and supply due to technology and market changes; and reputation risks

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111 The Committee wishes to note that EDC support to the oil and gas sector may have increased following market uncertainty stemming from court cases related to Redwater, an Alberta oil and gas company that declared bankruptcy in 2015. In 2019, the Supreme Court made a decision in the case of *Orphan Well Association v. Grant Thornton Ltd.*, that means that a company that goes bankrupt has a duty to use its available resources to clean up and reclaim its wells, pipelines and facilities before paying creditors.

112 EDC identifies a sector as carbon intensive if the emissions of the sector in Canada are over 500,000 tonnes of carbon dioxide equivalent per year, based on sector-reporting to ECCC's Greenhouse Gas Reporting Program, and data collected on annual average airline emissions.

113 EDC, *Due Diligence Framework: Climate Change*, 2021, p. 4.

114 Ibid.

reflecting changing customer or community perceptions of an organization's impact on the transition to a low-carbon and climate resilient economy.<sup>115</sup>

Figure 4 shows that EDC disbursed \$13.6 billion in 2021 supporting businesses in carbon-intensive sectors—less than in any of the previous three years.

### **Recommendation 9**

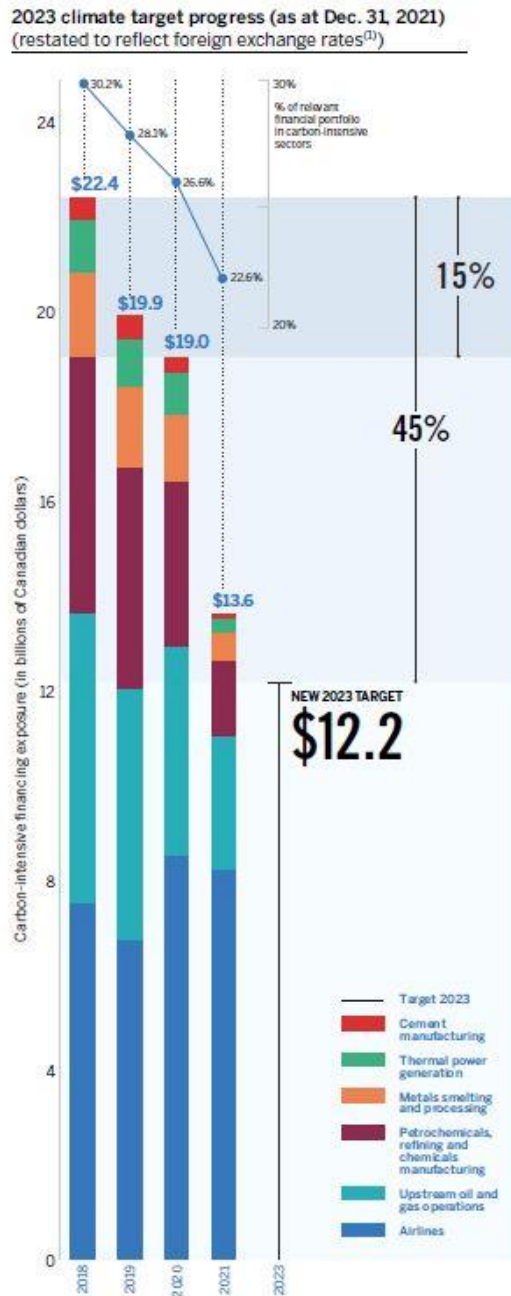
**That the Government of Canada attach strict conditions to all funding programs to ensure government spending is aligned with Canada's obligations under the *Paris Agreement*.**

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115 EDC, [\*Integrated Annual Report: Resilient Together 2021\*](#), 2021, p. 38.



**Figure 4—Representation of EDC’s current target to reduce financing exposure to the six most carbon-intensive sectors to 45% below 2018 levels by 2023, showing its relative levels of financing to those sectors**



<sup>(1)</sup> EDC’s assets are primarily denominated in U.S. dollars; as such, exposure values presented have been restated to reflect the foreign exchange rates prevailing at the time the target was set.

Source: EDC, [EDC Net Zero 2050](#), July 2022.



EDC's [climate change policy](#),<sup>116</sup> adopted in 2019, specifies that EDC will no longer finance new coal-fired power plants (unless they include carbon capture and storage technologies), new coal mines, thermal coal mining operations or companies that generate more than 40% of their revenue from thermal coal generation.<sup>117</sup> EDC's climate change policy and associated changes began before the federal government indicated an intention to phase out public supports for fossil fuels.

Several witnesses said that EDC's support for the sector should be seen as a subsidy.<sup>118</sup> Bronwen Tucker opined:

The most egregious federal production subsidy in Canada is Export Development Canada's \$13.6 billion a year, on average, in government-backed and often preferential support for oil and gas. EDC's activities mean that Canada gives the most trade and development finance to fossil fuels of any country in the G20. This EDC money also contributes heavily to Canada's worst ranking score among OECD G20 countries for all oil and gas production subsidies. Ultimately, it means that more oil and gas projects go forward than would otherwise be possible.<sup>119</sup>

When asked which subsidies she would like to see removed, Julia Levin named EDC's support to the fossil fuel sector, which she said it is the greatest part of the federal government's support to the sector, even if not officially designated a subsidy.<sup>120</sup>

In 2020 and 2021, respectively, EDC facilitated business valued at approximately \$8.1 billion and \$5.1 billion in the oil and gas sector—facilitating business could include offering loans, other financing, or insurance products.<sup>121</sup> Mairead Lavery explained that EDC's approach to oil and gas has evolved:

In just three years, between 2018 and 2021, EDC's support for this sector has decreased by approximately 65%. EDC has committed to cease any new financing to international fossil fuel companies or their projects by the end of this year.<sup>122</sup>

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116 EDC, [Climate Change Policy](#), 2021.

117 For more information, see: Export Development Canada (EDC), [Climate Change Policy](#), Appendix A: Thermal coal position, 2019, p. 12.

118 ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker); ENVI, [Evidence](#), 31 March 2022, 1905 (Julia Levin).

119 ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker).

120 ENVI, [Evidence](#), 31 March 2022, 1905 (Julia Levin).

121 EDC, [Disclosure, Canadian Industry Sub-sector 2020](#) and EDC, [Disclosure, Canadian Industry Sub-sector 2021](#).

122 ENVI, [Evidence](#), 26 April 2022, 1110 (Mairead Lavery).



She stated that EDC provided financial support to the oil and gas industries in 2021, but that it does not provide subsidies.<sup>123</sup> She also stated that EDC will divert its attention to the support of Canadian companies. She explained that EDC is

really working with the industry to understand their own pathway. Many of the Canadian oil and gas companies have signed up to a net-zero commitment. We want to work with them to understand what that means, what that means for technology, for clean technology in particular, and their investments in research and development, so that we can be with them on that journey as they work towards a low-carbon future.<sup>124</sup>

However, while it has committed to withdrawing from supporting international unabated fossil fuel projects, EDC has not made such a commitment related to Canadian projects; rather, it will “continue to review” its support for them.<sup>125</sup>

Ms. Lavery said that EDC is one of Canada’s largest financial backers of clean technology, and that in 2021, for the first time—in what she expects to be a trend—its support for clean technology surpassed its support for the oil and gas sector, without, however, providing details in her testimony.<sup>126</sup> Correspondence from EDC clarified that “[i]n 2021, EDC facilitated \$6.3 [b]illion in cleantech business and \$4.4 [b]illion in the [o]il and [g]as sector.”<sup>127</sup> EDC’s definition of clean technology is any process, product or service that reduces environmental impacts through:

- environmental protection activities that prevent, reduce or eliminate pollution or any other degradation of the environment;
- resource management activities that result in the more efficient use of natural resources, thus safeguarding against their depletion; and
- the use of goods that have been adapted to be significantly less energy or resource intensive than the industry standard.<sup>128</sup>

Mairead Lavery explained that the definition is broad and can include support for fossil fuel companies.<sup>129</sup> EDC offers a new “sustainable bond framework” that includes what

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123 ENVI, [Evidence](#), 26 April 2022, 1135 (Mairead Lavery).

124 ENVI, [Evidence](#), 26 April 2022, 1115 (Mairead Lavery).

125 ENVI, [Evidence](#), 26 April 2022, 1120 (Mairead Lavery).

126 ENVI, [Evidence](#), 26 April 2022, 1110 (Mairead Lavery).

127 EDC, Written Response to Questions, no date, shared with Committee 10 May 2023.

128 EDC, [Priority Sectors](#).

129 ENVI, [Evidence](#), 26 April 2022, 1120 (Mairead Lavery).

EDC considers to be “social as well as transition financing projects,” which can involve funding for fossil fuel companies.<sup>130</sup> Ms. Lavery called this a “transition bond,” adding that it allows EDC to “get in and help these companies move faster toward reducing their GHG emissions.”<sup>131</sup> She said EDC could use its leverage to help existing companies change faster, by requiring certain disclosures and a transition plan. She added that companies’ plans must have interim targets and be monitored—they cannot only have a 2050 net zero goal.<sup>132</sup>

Ms. Lavery indicated that support for Canadian oil and gas projects aims to ensure

that the financing is going towards transition-type products. This is capital expenditure specifically focused on reducing greenhouse gas emissions. Actually having the capacity there, we hope will make sure that they put in place that capital expenditure faster.<sup>133</sup>

She clarified that it can be hard for such companies to find financing for support for “early adoption of technology.”<sup>134</sup>

When asked about EDC’s support for renewable energy projects, as compared with emissions reduction in fossil fuel projects, Ms. Lavery said “[w]e have looked at our portfolio of the future and indicated how we would like to pivot that. That results in the teams having very clear capital allocations for the purposes of clean technology.”<sup>135</sup>

To ensure sound long-term investment decisions and avoid the possibility of financing assets that later become stranded, EDC “has been working on climate stress tests.”<sup>136</sup>

## **PROGRESS TO DATE: PHASING OUT FOSSIL FUEL SUBSIDIES BY 2023**

Hilary Geller of ECCC noted that there has been “significant progress in meeting the government's commitment to eliminate and rationalize inefficient fossil fuel subsidies in the tax sector.”<sup>137</sup> Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch,

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130 Ibid.

131 Ibid.

132 Ibid.

133 ENVI, *Evidence*, 26 April 2022, 1200 (Mairead Lavery).

134 Ibid.

135 ENVI, *Evidence*, 26 April 2022, 1120 (Mairead Lavery).

136 ENVI, *Evidence*, 26 April 2022, 1235 (Mairead Lavery).

137 ENVI, *Evidence*, 5 May 2022, 1150 (Hilary Geller).



Department of Finance, affirmed that since 2007, phase-out has begun or been announced for nine tax measures, including the proposal in Budget 2022 to finalize the phase-out of the flow-through shares for oil, gas and coal exploration.<sup>138</sup> Ben Brunnen confirmed that the federal government no longer provides production subsidies for the sector.<sup>139</sup>

Work to reduce fossil fuel subsidies was already underway in previous parliaments. For example, ECCC describes at least eight tax benefits for the fossil fuel sector that were phased out or rationalized between 2015 and 2021.<sup>140</sup> In a brief, CAPP stated that the federal government has been phasing out subsidies over the last 19 years. Government actions to eliminate subsidies are listed in Table 4.

**Table 4—Timeline of Government of Canada Commitments and Actions to Phase Out Fossil Fuel Subsidies and Supports**

Year	Action
Budget 2003	Phase-out of a tax preference for fossil fuel production: provisions relating to the resource allowance*
Budget 2007; completed 2015	Phase-out of a tax measure: accelerated capital cost allowance for oil sands**
Budget 2011; completed 2016	Phase-out of tax measure: reduction in deduction rates for intangible capital expenses in oil sands projects to align with rates in the conventional oil and gas sector**
Budget 2012; completed 2017	Phase-out of tax measure: the Atlantic Investment Tax Credit for oil and gas mining**
Budget 2013; completed 2018	Phase-out of tax measure: Reduction in the deduction rate for pre-production intangible mine development expenses to align with the rate for the oil and gas sector**
Budget 2013; completed 2021	Phase-out of tax measure: accelerated capital cost allowance for mining**
Budget 2016	Phase-out of a tax measure: accelerated capital cost allowance for liquefied natural gas facilities to expire as scheduled in 2025**
Budget 2017; completed 2019	Phase-out of tax preference allowing small oil and gas companies to reclassify certain development expenses as more favourably treated exploration expenses***

138 ENVI, [Evidence](#), 5 May 2022, 1150 (Miodrag Jovanovic).

139 ENVI, [Evidence](#), 29 March 2022, 1225 (Ben Brunnen).

140 ECCC, [Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies](#), pp. 4–5.

Year	Action
Budget 2017; completed 2021	Rationalization of the tax treatment of expenses for successful oil and gas exploratory drilling***
2019 (public consultation)	Public consultation occurred from March to June on the Government's draft framework to review fossil fuel subsidy measures outside the tax system (led by ECCC)***
Budget 2022	Proposed to eliminate the flow-through share regime for fossil fuel sector activities (for flow-through share agreements entered into after 31 March 2023)***

Sources: Office of the Auditor General of Canada (OAG), *2017 Spring Reports of the Auditor General of Canada to the Parliament of Canada*, "[Report 7—Fossil Fuel Subsidies](#)"; Environment and Climate Change Canada, *Discussion Document for Canada's Assessment Framework of Inefficient Fossil Fuel Subsidies*, pp. 4–5; Environment and Climate Change Canada, Briefing materials for [Appearance before the Standing Committee on Environment and Sustainable Development—May 3, 2022](#), "Inefficient fossil fuel subsidies"; Prime Minister of Canada, [Deputy Prime Minister and Minister of Finance Mandate Letter](#), [Minister of Environment and Climate Change Mandate Letter](#), [Minister of Natural Resources Mandate Letter](#), 16 December 2021.

Note: Primary reference indicated for each line as follows: \*OAG 2017, \*\*ECCC 2019, \*\*\*ECCC 2022.

When questioned about the Department of Finance's process, Miodrag Jovanovic noted that industry is always given time to adapt, and that social and economic impacts, including impacts on jobs, are always assessed when the Department considers eliminating any support:<sup>141</sup>

If there's any doubt as to the importance of the potential effect of phasing out a specific subsidy, that's where the design of the phase-out and the time we give industry to adjust becomes quite important. ... [V]ery often there is a substantial period that is being provided to adjust.<sup>142</sup>

In contrast to the government's analysis, other organizations have described Canada's fossil fuel subsidies as being significant in size, but difficult to assess.

The CESD and the Office of the Auditor General of Canada (OAG) conducted audits and studies on fossil fuel subsidies in Canada in 2012, 2017 and 2019. The investigations all found that the departments had not defined "inefficient fossil fuel subsidies."

141 ENVI, [Evidence](#), 5 May 2022, 1150 (Miodrag Jovanovic).

142 Ibid.



In their studies and audits in 2012,<sup>143</sup> 2017,<sup>144</sup> and 2019,<sup>145</sup> the CESD and OAG studied the government’s commitment on fossil fuel subsidies.<sup>146</sup> Each study found that departments had been unable to complete the work, in part because they had not clearly defined an inefficient fossil fuel subsidy.

In November 2021, the CESD published an audit report focused on the Onshore Program of NRCan’s Emissions Reduction Fund for the oil and gas sector, which found that the program’s interest-free and non-repayable loans for oil and gas companies were examples of subsidies.<sup>147</sup> It criticized the program’s design because it did not link funding to net emissions reductions from oil and gas operations.<sup>148</sup>

Jerry DeMarco noted that a key part of the departments’ responses to the CESD audits was that there were going to undertake a peer review with Argentina, as announced in 2018, however, no update on the progress of this review had yet been made at the time of his testimony.<sup>149</sup> The Government of Canada has stated that the voluntary peer reviews among G20 countries working to reform fossil fuel subsidies “will enable both countries to compare and improve knowledge, and push forward the global momentum to identify and reduce inefficient fossil fuel subsidies.”<sup>150</sup> Other witnesses drew attention to the anticipated peer review as well.<sup>151</sup>

Several witnesses commented that they considered the Government of Canada’s support for the Trans Mountain Expansion Project (TMX) to be a fossil fuel subsidy that

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143 Office of the Auditor General, Report of the Commissioner of the Environment and Sustainable Development: [Chapter 4—Study of Federal Support to the Fossil Fuel Sector](#), 2012.

144 Office of the Auditor General, 2017 Spring Reports of the Auditor General of Canada: [Report 7—Fossil Fuel Subsidies](#), 2017.

145 Office of the Auditor General, 2019 Spring Reports of the Commissioner of the Environment and Sustainable Development to the Parliament of Canada [Report 3—Tax Subsidies for Fossil Fuels—Department of Finance Canada](#) and [Report 4—Non-Tax Subsidies for Fossil Fuels—Environment and Climate Change Canada](#), 2019.

146 ENVI, [Evidence](#), 5 April 2022, 1110 (Jerry V. DeMarco).

147 CESD, [Report 4—Emissions Reduction Fund—Natural Resources Canada](#), Report 4 in *Reports 3 to 7 of the Commissioner of the Environment and Sustainable Development to the Parliament of Canada*.

148 Ibid.

149 ENVI, [Evidence](#), 5 April 2022, 1110 (Jerry V. DeMarco).

150 ECCC, [Discussion Document for Canada’s Assessment Framework of Inefficient Fossil Fuel Subsidies](#), p. 1.

151 ENVI, [Evidence](#), 29 March 2022, 1230 (Joy Aeree Kim); ENVI, [Evidence](#), 31 March 2022, 1905 (Julia Levin); ENVI, [Evidence](#), 26 April 2022, 1235 (Aaron Cosbey).

should be ended.<sup>152</sup> One witness deferred to ECCC's analysis and therefore does not see it as a subsidy<sup>153</sup> and one witness approved of the government's support for the project because it could provide stable, predictable revenues for Indigenous communities.<sup>154</sup>

### **Recommendation 10**

**That Natural Resources Canada ensure that, for onshore projects, the Emissions Reduction Fund only considers projects that fully eliminate methane emissions.**

### **Recommendation 11**

**That the Government of Canada complete and publish its fossil fuel subsidy peer review with Argentina as quickly as possible.**

## **QUANTIFYING FOSSIL FUEL SUBSIDIES IN CANADA**

It can be difficult to provide a definitive valuation for fossil fuel subsidies in Canada, given the range of definitions, and delays in availability of data. However, the IISD has prepared some inventories of fossil fuel subsidies in Canada as part of its Global Subsidies Initiative. The IISD uses the WTO definition of subsidies in this inventory.<sup>155</sup>

The IISD estimated that fossil fuel subsidies in Canada in fiscal year 2019–2020 were worth nearly \$600 million, but would be higher if subsidies for which publicly available data were lacking, such as tax-related subsidies, could be included.<sup>156</sup> The authors noted that fossil fuel subsidies at the federal level were primarily directed to fossil fuel producers, as opposed to consumers, and that Canadian subsidies have shifted “from an emphasis on exploration to one on the development of infrastructure for fossil fuel production and

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152 ENVI, *Evidence*, 29 March 2022, 1210 (Bronwen Tucker); ENVI, *Evidence*, 31 March 2022, 1905 (Julia Levin); ENVI, *Evidence*, 31 March 2022, 2005 (David Gooderham); ENVI, *Evidence*, 26 April 2022, 1105 (Jason MacLean).

153 ENVI, *Evidence*, 29 March 2022, 1220 (Ben Brunnen).

154 ENVI, *Evidence*, 31 March 2022, 1840 (Stephen Buffalo, President and Chief Executive Officer, Indian Resource Council Inc.).

155 Vanessa Corkal, Julia Levin and Philip Gass, International Institute for Sustainable Development [IISD], *Canada's Federal Fossil Fuel Subsidies in 2020*, February 2020, pp. 22–23.

156 Vanessa Corkal, Julia Levin and Philip Gass, International Institute for Sustainable Development [IISD], *Canada's Federal Fossil Fuel Subsidies in 2020*, February 2020, p. 1.



exports.”<sup>157</sup> They also pointed out that “[i]nformation on subsidies should be more transparent to allow for a more comprehensive inventory.”<sup>158</sup>

The IISD inventory for 2020 found that in that year the Canadian government had provided at least \$1.91 billion in fossil fuel subsidies,<sup>159</sup> noting that this figure is an underestimate because insufficient data is available to fully document the level of federal subsidies. The jump of over 200% from 2019 levels was mostly due to support measures that were introduced in response to the COVID-19 pandemic. In particular, a direct transfer supported Newfoundland’s offshore oil industry,<sup>160</sup> and federal funds of up to approximately \$1.7 billion were transferred to certain provinces and the Alberta Orphan Well Association to help with the clean-up of orphan and inactive oil and gas wells.<sup>161</sup> Stephen Buffalo, President and Chief Executive Officer of the Indian Resource Council Inc., and Heather Exner-Pirot both noted several benefits of the orphan well funding: it had helped to clean up First Nations land, and had employed 250 young First Nations people, and had ended methane leaks.<sup>162</sup> Julia Levin said it would have been good use of public funds had the money gone directly to First Nations, but that the lion’s share went to large companies, which then paused their own funding and used public dollars.<sup>163</sup> Dale Beugin was of the view that support for orphan well clean-up should be temporary and “targeted at firms most at risk of bankruptcy.”<sup>164</sup>

A report from the IMF determined that, when externalities were included, Canada provided \$U.S. 43 billion to the oil and gas sector in 2015.”<sup>165</sup> A 2021 update found a number closer to \$U.S. 63 billion.<sup>166</sup>

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157 Ibid.

158 Ibid.

159 Vanessa Corkal, IISD, [Federal Fossil Fuel Subsidies in Canada: COVID-19 edition](#), February 2021, p. 1.

160 Ibid.

161 Department of Finance Canada, [“Orphan and Inactive Oil and Gas Wells,”](#) *Canada’s COVID-19 Economic Response Plan: New Support to Protect Canadian Jobs*.

162 ENVI, [Evidence](#), 31 March 2022, 1845 (Stephen Buffalo); ENVI, [Evidence](#), 31 March 2022, 1945 (Heather Exner-Pirot).

163 ENVI, [Evidence](#), 31 March 2022, 1910 (Julia Levin).

164 ENVI, [Evidence](#), 31 March 2022, 1830 (Dale Beugin).

165 David Coady, Ian Parry, Nghia-Piotr Le, and Baoping Shang, IMF, [Global fossil fuel subsidies remain large: An update based on country-level estimates](#), May 2019, p. 35.

166 Ian W. H. Parry et al., International Monetary Fund, [Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies](#), September 24, 2021.



In the OECD inventory of support measures for fossil fuels, many measures listed for Canada have been phased out since 2006 or 2010.<sup>167</sup> The main measure currently listed for Canada is a tax expenditure, “flow-through share deductions,” which decreased:

- from approximately \$292 million in 2011 to about \$7.8 million in 2021 for crude oil;
- from almost \$4 million in 2011 to about \$65,000 in 2021 for “natural gas liquids;” and
- from \$9.3 million for natural gas in 2011 to about \$157,000 in 2021.<sup>168</sup>

The Canadian Association of Petroleum Producers argued in its brief that “remaining oil and gas tax measures are part of the benchmark tax system, therefore not subsidies pursuant to our G20 commitment.”<sup>169</sup> Estimates generally include a caveat because not all data is available; however, Table 5 presents some of the estimates.

**Table 5—Estimates of Fossil Fuel Subsidies in Canada**

Source	2019 Estimate	2020 Estimate	2021 Estimate (if available)	Notes
Fossil Fuel Subsidy Tracker <sup>a</sup>	2.252 billion USD	3.924 billion USD	3.190 billion USD	Based on data from the Organisation for Economic Cooperation and Development
International Institute for Sustainable Development	0.6 billion CAD <sup>b</sup>	1.91 billion CAD <sup>c</sup>	n/a	Includes only federal subsidies, not provincial ones.  These figures refer to data from each calendar year.

Sources: OECD, [OECD work on support for fossil fuels: Methodology](#).

- [Fossil Fuel Subsidy Tracker](#), “Country: Canada.” Accessed May 8, 2023.
- Vanessa Corkal, Julia Levin and Philip Gass, International Institute for Sustainable Development (IISD), [Canada’s Federal Fossil Fuel Subsidies in 2020](#), February 2020, p. 1.
- Vanessa Corkal, International Institute for Sustainable Development, [Federal Fossil Fuel Subsidies in Canada: COVID-19 edition](#), February 2021, p. 1.

167 OECD, [Inventory of Support Measures for Fossil Fuels](#).

168 OECD.Stat, “[Fossil Fuel Support—CAN](#),” database, accessed May 8 2023.

169 CAPP, “[Brief submitted to ENVI](#),” May 2022.



## Recommendation 12

**That the Government of Canada make information about subsidies and supports to the fossil fuel sector transparently available, to allow for a more comprehensive inventory and analysis.**

## HOW THE GOVERNMENT OF CANADA CAN MEET ITS CLIMATE COMMITMENTS

In discussing the planned phase-out of fossil fuel subsidies and supports, many witnesses put considerable time and effort into contextualizing their comments with suggestions of how Canada could meet its emissions reduction targets and contribute most effectively to its Paris obligation of holding global temperature increase to no more than 1.5 °C above the pre-industrial average by 2100.

Some of the main themes witnesses addressed are presented in this section.

### Just Transition

Many witnesses who supported the concept of a “just transition” offered suggestions on how to move forward to ensure that climate commitments are met in a fair and inclusive way, providing high quality employment opportunities, including for those currently working in the fossil fuel sector, and most importantly leaving no one behind.<sup>170</sup> In its brief, LeadNow explained that over 43,000 people from across Canada had signed petitions “demanding a Just Transition to tackle the climate crisis and inequality, by investing in communities and creating secure jobs that are also good for the planet.”<sup>171</sup>

Bronwen Tucker said a just transition would “protect [...] workers and communities rather than locking in climate chaos.”<sup>172</sup>

Larry Rousseau, Executive Vice-President of the Canadian Labour Congress, explained that the Canadian Labour Congress represents three million workers, including tens of

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170 E.g., ENVI, [Evidence](#), 29 March 2022, 1105 (Larry Rousseau, Executive Vice-President, Canadian Labour Congress); ENVI, [Evidence](#), 5 April 2022, 1140 (Jerry V. DeMarco); ENVI, [Evidence](#), 5 April 2022, 1105 (Simon Langlois-Bertrand); ENVI, [Evidence](#), 5 April 2022, 1145 (Simon Langlois-Bertrand); ENVI, [Evidence](#), 29 March 2022, 1240 (Bronwen Tucker); ENVI, [Evidence](#), 26 April 2022, 1205 (Annie Chaloux); Grand Chief Stewart Phillip, [Speaking Notes for GCSP: House of Commons Standing Committee on Environment and Sustainability](#), p. 3, 31 March 2022. Appended to ENVI, [Evidence](#), 31 March 2022.

171 LeadNow Society, [“Brief submitted to ENVI,”](#) May 2022.

172 ENVI, [Evidence](#), 29 March 2022, 1240 (Bronwen Tucker).

thousands working “in the fossil fuel industry” and is a long-time supporter of just transition measures. He noted:

[E]nergy and resource sector workers already understand the grim reality of climate change. They are living it. They get the need to transition to clean and renewable sources of energy, but they insist, and we insist, that the transition [benefit] workers instead of occurring at their expense.<sup>173</sup>

He emphasized the need for a role for workers and unions in discussions and decisions that affect “their future and the economic future of their communities.”<sup>174</sup>

Aaron Cosbey added that any spending of public funds that results in more investment in oil and gas sectors will build up assets that are at risk of being stranded, which can compromise a just transition: He explained that, according to the IISD’s 2021 report, “In Search of Prosperity,”

post-2030 global demand for oil is going to be in secular decline, with low and volatile prices. If we don’t properly manage the rampdown of investment and production in that sector, the economic impacts are going to be acutely painful for oil-dependent regions, communities and workers.<sup>175</sup>

Public dollars are better spent on “reskilling, upskilling and generous relocation packages for oil and gas workers and their families” than on subsidies to the [fossil fuel] sector, said Justin Leroux, who is Professor of Applied Economics at HEC Montréal and Co-Director, Ethics and Economics at Centre de recherche en éthique.<sup>176</sup>

## Support for Renewable Power and Clean Energy

A few witnesses were skeptical that renewable energy could meet societal needs,<sup>177</sup> or said it was too expensive,<sup>178</sup> but several other witnesses stated that support for renewable energy was an essential and plausible solution, citing analysis by organizations such as the IEA.

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173 ENVI, [Evidence](#), 29 March 2022, 1105 (Larry Rousseau).

174 Ibid.

175 ENVI, [Evidence](#), 26 April 2022, 1210 (Aaron Cosbey).

176 ENVI, [Evidence](#), 26 April 2022, 1100 (Justin Leroux, Professor of Applied Economics at HEC Montréal, Co-Director, Ethics and Economics at Centre de recherche en éthique, as an individual).

177 ENVI, [Evidence](#), 26 April 2022, 1210 (Craig Golinowski, President and Managing Partner, Carbon Infrastructure Partners Corp.).

178 ENVI, [Evidence](#), 5 April 2022, 1220 (Hon. Dan McTeague, President, Canadians for Affordable Energy).



Julia Levin said that Canada is below its potential in non-hydro renewable energy capacity and building new renewable energy power is cheaper than running existing fossil-fuel-based energy production.<sup>179</sup> “In terms of job creation and co-benefits, cleaner air and jobs in every community across the country, there's no question that investing in renewables is necessary.”<sup>180</sup>

Normand Mousseau, Scientific Director of the Trottier Energy Institute and Full Professor at Polytechnique Montréal, said that subsidies “must facilitate the transition to low-carbon energy.”<sup>181</sup> Christina Hoicka, Canada Research Chair in Urban Planning for Climate Change and Associate Professor at the University of Victoria, noted, “[a]ccording to the Organization of Economic Co-operation and Development and the International Energy Agency's “Clean Energy Technology Guide,” there are at least 38 technologies, including a range of renewable energy technologies, that are market ready and could be scaled immediately with the right supports.”<sup>182</sup> She added that investing in technologies that are part of a clean energy transition would be a more effective use of scarce public dollars than funding the oil and gas sector.<sup>183</sup>

Christina Hoicka said that Canada needs to support these proven technologies to a greater extent, or it won't be able to meet its climate goals. She acknowledged the challenge of providing sufficient electricity transmission to cities for electrification of vehicles and growth of population, buildings and industry, but was confident that with the right mix of policy instruments, administrative support for programs, and support for communities to participate meaningfully, it is possible, and “can be done in a socially and economically just manner.”<sup>184</sup> She explained that her research has shown that one way to bring down costs and increase reliability is to combine “clusters of innovations.”<sup>185</sup>

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179 ENVI, [Evidence](#), 31 March 2022, 1900 (Julia Levin).

180 Ibid.

181 ENVI, [Evidence](#), 29 March 2022, 1100 (Normand Mousseau, Scientific Director and Full Professor, as an individual).

182 ENVI, [Evidence](#), 5 April 2022, 1205 (Christina Hoicka, Canada Research Chair in Urban Planning for Climate Change, Associate Professor in Geography and Civil Engineering, University of Victoria, as an individual).

183 ENVI, [Evidence](#), 5 April 2022, 1235 (Christina Hoicka).

184 ENVI, [Evidence](#), 5 April 2022, 1205 (Christina Hoicka).

185 ENVI, [Evidence](#), 5 April 2022, 1205 (Christina Hoicka).

### Recommendation 13

**That the Government of Canada support renewable energy innovation to demonstrate the potential for an affordable, clean energy transition.**

In contrast, the view of Craig Golinowski, who is President and Managing Partner of Carbon Infrastructure Partners Corp., was that it is “simply impossible to rally the magnitude of capital needed to invest in sufficient alternative energies.”<sup>186</sup>

Bronwen Tucker explained that an October 2021 report<sup>187</sup> released by Friends of the Earth U.S. and Oil Change International showed that on average, G20 countries as a whole provided 2.5 times more support for fossil fuels than for renewable energy from 2018 to 2021; while in Canada it has been over 14 times more.<sup>188</sup> This indicates that public finance for oil and gas really needs to be phased out, she and others concluded.<sup>189</sup>

Christina Hoicka said that she believes Canada can meet its targets, “if we follow the evidence on our fastest, cheapest options, which also improve social and economic benefits.”<sup>190</sup> For example:

Critical and technologically viable opportunities for decarbonization [which] include electrification of transportation; deep energy retrofits to buildings, ... including heat pumps; and the rapid scale-up of waste heat capture for heating and cooling processes in cities and industrial districts.<sup>191</sup>

Scaled-up generation and new distribution and transmission technology would be needed so this renewable electricity could be used.<sup>192</sup>

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186 ENVI, *Evidence*, 26 April 2022, 1210 (Craig Golinowski).

187 Friends of the Earth United States and Oil Change International, *Past Last Call: G20 Public Finance Institutions are Still Bankrolling Fossil Fuels*, October 2021.

188 ENVI, *Evidence*, 29 March 2022, 1230 (Bronwen Tucker).

189 ENVI, *Evidence*, 31 March 2022, 1905 (Julia Levin); ENVI, *Evidence*, 5 April 2022, 1130 (Eddy Pérez).

190 ENVI, *Evidence*, 5 April 2022, 1205 (Christina Hoicka).

191 Ibid.

192 Ibid.



## Recommendation 14

**That the Government of Canada use its resources to prioritize support for identified, technologically viable decarbonization options, as well as scaled-up renewable electricity generation and new distribution and transmission technology.**

### Carbon Pricing

Tristan Goodman pointed out that a carbon offset market can help to address concerns related to competitiveness.<sup>193</sup> A predictable carbon price is important, he said, and urged the government to ensure certainty on this front. Craig Golinowski agreed that a predictable carbon price was critical.<sup>194</sup>

Dale Beugin suggested that carbon pricing and flexible regulations should be the backbone of a cost-effective federal policy that aimed to minimize costs to achieve deep emissions reductions. He added that complementary policies, such as support for research and development, can make carbon pricing work better, both at reducing GHG emissions, and at doing so in a cost-effective way.<sup>195</sup> Jerry DeMarco was also supportive of carbon pricing.

A few witnesses pointed out that large emitters are often paying the carbon price on only a fraction of their emissions, because of the system of performance standards that was intended to protect competitiveness. In their views, this can be considered a subsidy.<sup>196</sup> Justin Leroux commented that the justification for allowing them to pay less is to maintain international competitiveness, but said the amount they pay is too low, and that they should eventually pay the full amount.<sup>197</sup> Julia Levin said the problems with carbon pricing should be “fixed” so Canada has a carbon pricing system “that works.”<sup>198</sup>

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193 ENVI, [Evidence](#), 29 March 2022, 1110 (Tristan Goodman).

194 ENVI, [Evidence](#), 26 April 2022, 1255 (Craig Golinowski).

195 ENVI, [Evidence](#), 31 March 2022, 1930 (Dale Beugin).

196 ENVI, [Evidence](#), 31 March 2022, 2005 (David Gooderham); ENVI, [Evidence](#), 31 March 2022, 1920 (Julia Levin); ENVI, [Evidence](#), 26 April 2022, 1150 (Justin Leroux).

197 ENVI, [Evidence](#), 26 April 2022, 1150 (Justin Leroux).

198 ENVI, [Evidence](#), 31 March 2022, 1920 (Julia Levin).

### Recommendation 15

**That the Government of Canada continue to emphasize carbon pricing and flexible regulations as the core of its emissions reduction policy, in order to minimize the costs required to achieve significant emissions reductions.**

### Recommendation 16

**That the Government of Canada should make public investments in projects that are complementary to carbon pricing and to other regulatory policies aimed at reducing greenhouse gas emissions.**

## International Competitiveness

Some witnesses raised questions about Canadian companies' competitiveness as the country reduces GHG emissions and phases out subsidies and supports for the fossil fuel industry. Jerry DeMarco acknowledged that "[i]f one jurisdiction sticks its neck out and does something and the others don't follow, it could be put at a competitive disadvantage."<sup>199</sup> However, he pointed out that this does not mean that failing to act to reduce climate change is the best course of action, and emphasized the importance of collaboration with other countries and actors:

It's a difficult issue with climate change, because you're never going to get a 100% consensus among nearly 200 countries on every measure and every definition [...]

To the best extent, if we can at least collaborate with our G7 and G20 colleagues in looking at this in a coordinated way, which [...] includes peer reviews with other nations, then we'll have a better chance of having the entire herd go in the same direction, rather than just one of us going ahead of the pack or behind the pack.<sup>200</sup>

Tristan Goodman stated his support for the Government of Canada's goal of tackling emissions, but felt that the oil and gas industry needs support in order to deal with the costs of complying with government policies on climate change: He emphasized a need to "remain competitive with other nations and attract significant investment capital into this country"<sup>201</sup> and a desire to ensure that oil and gas development occurs in Canada

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199 ENVI, *Evidence*, 5 April 2022, 1120 (Jerry V. DeMarco).

200 Ibid.

201 ENVI, *Evidence*, 29 March 2022, 1110 (Tristan Goodman).



while it is still needed.<sup>202</sup> Otherwise, he suggested, the production would take place in other jurisdictions that lack “climate expertise and ambition.”<sup>203</sup>

Ben Brunnen similarly argued:

Investing in emissions reduction technology is often unproven and can be substantially costly. From a private sector perspective, I think for all aspects of the economy we would be looking for [government support for] incremental costs that would be borne [by government] that would be difficult to support for investors, particularly investors who are looking at investing on a global basis. If we can't provide the returns to these investors, they'll simply invest in other jurisdictions or globally.<sup>204</sup>

Shannon Joseph, Vice-President, Government Relations and Indigenous Affairs at CAPP, added, “[i]t is that Canada is really beyond low-hanging fruit in terms of emissions reduction ambition. To go beyond that low-hanging fruit is going to require innovation by all sectors and an investment.”<sup>205</sup>

Grand Chief Stewart Phillip was skeptical of such statements, reminding the Committee that “the fossil fuel industry has spent decades promoting misinformation about the safety of their activities and products, and delaying any meaningful government action that would have the effect of reducing their profits.”<sup>206</sup>

Jerry DeMarco emphasized the government’s role in working with the sector:

Canada will need to work with the oil and gas sector, but it shouldn't be afraid to regulate as well. It's not an entirely voluntary relationship between government and industry. They work together, but it's up to Canada, which made the commitment to net zero, to meet it, and that will require a range of measures, from carbon pricing to regulation to working with industry on voluntary measures—the whole gamut.<sup>207</sup>

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202 Ibid.

203 Ibid.

204 ENVI, [Evidence](#), 29 March 2022, 1220 (Ben Brunnen).

205 ENVI, [Evidence](#), 29 March 2022, 1220 (Shannon Joseph, Vice-President, Government Relations and Indigenous Affairs, Canadian Association of Petroleum Producers).

206 Grand Chief Stewart Phillip, [Speaking Notes for GCSP: House of Commons Standing Committee on Environment and Sustainability](#), p. 1, 31 March 2022. Appended to ENVI, [Evidence](#), 31 March 2022.

207 ENVI, [Evidence](#), 5 April 2022, 1120 (Jerry V. DeMarco).



Dale Beugin concurred, suggesting that governments should “maximize scarce public dollars by making public investments complementary to carbon pricing and other regulatory policies, rather than financing company compliance with those measures.”<sup>208</sup>

Mark Agnew considered the Net-Zero Accelerator Initiative a helpful fund with a vital role to play. If oil and gas companies did not have access to such initiatives, he said, the transition towards net zero would be much more difficult.<sup>209</sup> Julia Levin, however, saw this fund as a potential source of subsidies to the oil and gas sector, and suggested it should have “strict climate conditions,” to ensure it doesn’t become a subsidy for the sector.<sup>210</sup>

### **Recommendation 17**

**That the Government of Canada continue to ensure that the competitiveness of Canada’s oil and gas sector is considered when it makes decisions related to climate change measures, and that it continue to collaborate with other jurisdictions to address issues of global competitiveness.**

## **SELECTED CONSIDERATIONS**

Several additional considerations arose during the study, including the following.

### **Affordability**

A number of witnesses mentioned the importance of ensuring the affordability of energy, food, housing, and other basic needs in Canada.<sup>211</sup>

A few witnesses expressed concerns that the elimination of fossil fuel subsidies could make energy and other necessities unaffordable.<sup>212</sup> Tristan Goodman pointed out that

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208 ENVI, [Evidence](#), 31 March 2022, 1830 (Dale Beugin).

209 ENVI, [Evidence](#), 29 March 2022, 1105 (Mark Agnew).

210 E.g., ENVI, [Evidence](#), 31 March 2022, 1905 (Julia Levin).

211 ENVI, [Evidence](#), 5 April 2022, 1210 (Hon. Dan McTeague); ENVI, [Evidence](#), 26 April 2022, 1210 (Craig Golinowski).

212 ENVI, [Evidence](#), 26 April 2022, 1210 (Craig Golinowski); ENVI, [Evidence](#), 29 March 2022, 1205 (Ben Brunnen); ENVI, [Evidence](#), 31 March 2022, 1940 (Heather Exner-Pirot).



high energy prices affect low-income Canadians the most, and expressed concern about “energy affordability for Canadians as well as, quite frankly, globally.”<sup>213</sup>

Others, like Larry Rousseau, wanted governments to find other ways to support Canadians who needed support with affordability.<sup>214</sup> Several witnesses emphasized the risks to Canadians and others around the world from the impacts of climate change, seeing these as a reason for Canada to take measures that reduce emissions urgently.<sup>215</sup> Julia Levin said:

We know that, to avoid catastrophic climate change, we must transition our economies off fossil fuels in the next decade. We have the solutions to build a clean energy future, and we know that the transition away from fossil fuels will bring far greater energy affordability, security and better jobs.<sup>216</sup>

## Supports That Directly Benefit Indigenous Communities

Stephen Buffalo mentioned examples of subsidies that affect Indigenous communities, such as support for diesel generating stations or Indigenous Services Canada support for natural gas and diesel projects, and highlighted the importance of providing heat and electricity in Indigenous communities.<sup>217</sup>

All witnesses who referred to Indigenous communities agreed that access to energy was a priority.<sup>218</sup> None of the testimony or briefs advocated for removing these subsidies; witnesses did, however, provide nuanced views on the types of subsidies received, pointing out that it is important to invest in diversifying the energy sources for these communities,<sup>219</sup> adding that money spent on subsidies could compromise availability of federal funds for transition and for provision of services,<sup>220</sup> among other points.

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213 ENVI, [Evidence](#), 29 March 2022, 1115 (Tristan Goodman).

214 ENVI, [Evidence](#), 29 March 2022, 1105 (Larry Rousseau); ENVI, [Evidence](#), 26 April 2022, 1155 (Jason MacLean).

215 E.g. ENVI, [Evidence](#), 26 April 2022, 1230 (Annie Chaloux),

216 ENVI, [Evidence](#), 31 March 2022, 1835 (Julia Levin).

217 ENVI, [Evidence](#), 31 March 2022, 1840 (Stephen Buffalo).

218 E.g., ENVI, [Evidence](#), 26 April 2022, 1240 (Aaron Cosbey); ENVI, [Evidence](#), 5 April 2022, 1150 (Eddy Pérez); ENVI, [Evidence](#), 31 March 2022, 1930 (Julia Levin); ENVI, [Evidence](#), 29 March 2022, 1130 (Tara Peel, Political assistant to the President, Canadian Labour Congress).

219 ENVI, [Evidence](#), 26 April 2022, 1240 (Aaron Cosbey).

220 ENVI, [Evidence](#), 5 April 2022, 1150 (Eddy Pérez).

## Energy Security

Ben Brunnen suggested that removing fossil fuel subsidies or supports could affect global energy security,<sup>221</sup> and Craig Golinowski commented that “[i]f we are unable to supply a sufficient quantity of energy to the human population, we'll have famine, we'll have war and we'll have chaos.”<sup>222</sup> Heather Exner-Pinot equated energy security to climate change: “I agree that climate is a very important issue and I agree that the energy crisis is a very important issue. I don't think we should ignore one at the expense of the other.”<sup>223</sup>

Eddy Pérez, on the other hand, said that energy experts around the world had described the war in Europe as a wake-up call, and that countries are looking for ways to transition away from fossil fuels and gas, even if in the near future they will be reliant on fossil fuels.<sup>224</sup> Other witnesses expressed the view that the best way to ensure energy security is to support renewable energy sources, notably Jerry DeMarco who stated that “diversifying our energy base [...] will also have the co-benefit of increasing energy security.”<sup>225</sup>

## Carbon Capture, Utilization and Storage

The government of Canada's [Budget 2022](#) announced an investment tax credit for CCUS that is expected to cost \$2.6 billion over five years starting in 2022–23, increasing to \$1.5 billion annually after that.<sup>226</sup> Many witnesses spoke about this during their testimony.

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221 ENVI, [Evidence](#), 29 March 2022, 1205 (Ben Brunnen).

222 ENVI, [Evidence](#), 26 April 2022, 1220 (Craig Golinowski).

223 ENVI, [Evidence](#), 31 March 2022, 2035 (Heather Exner-Pinot).

224 ENVI, [Evidence](#), 5 April 2022, 1155 (Eddy Pérez).

225 ENVI, [Evidence](#), 5 April 2022, 1135 (Jerry V. DeMarco).

226 Government of Canada, A Plan to Grow Our Economy and Make Life More Affordable, “[Chapter 3: Clean Air and a Strong Economy](#),” 2022.



While many witnesses and authors of briefs who spoke about it did not think the federal government should be providing subsidies or supports for CCUS,<sup>227</sup> some did feel that CCUS was an important area for the federal government to support.<sup>228</sup>

Several witnesses argued that reliable modelling shows that carbon capture and storage should be used only in applications where it is absolutely essential, as a “last-resort solution”<sup>229</sup> for industries that are challenging to decarbonize (such as steel and cement), and not to promote and maximize oil and gas extraction.<sup>230</sup> While carbon does need to be stored, explained Normand Mousseau, Canada will need to be storing a huge amount of carbon—150 Mt annually—by 2050 “even if we reduce emissions and electrify as much as we can;”<sup>231</sup> he pointed out that if oil and gas extraction and combustion are not significantly reduced, Canada will have “astronomical amounts” of carbon to store.<sup>232</sup> As much storage as possible should be through nature-based solutions, added Julia Levin.<sup>233</sup>

Mark Agnew pointed out that CCUS is expensive, and said, “without this tax credit there certainly is no credible pathway towards net zero.”<sup>234</sup> Others agreed it is expensive,<sup>235</sup> but pointed out that it has yielded little success over many years of government support.<sup>236</sup> Aaron Cosbey pointed out that the IPCC report published in April ranked possible [climate] solutions in terms of feasibility and cost, and carbon capture was not just high cost, but also high risk. “If you want to pick a solution to decarbonization, it's not CCUS,” he said.<sup>237</sup>

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227 E.g. ENVI, [Evidence](#), 26 April 2022, 1130 (Jason MacLean); ENVI, [Evidence](#), 26 April 2022, 1100 (Justin Leroux); ENVI, [Evidence](#), 26 April 2022, 1210 (Aaron Cosbey); ENVI, [Evidence](#), 26 April 2022, 1240 (Annie Chaloux), Climate Justice Victoria, “[Brief submitted to ENVI](#),” April 2022; Matthew Freedlander, “[Brief submitted to ENVI](#),” April 2022; SFU350, “[Brief submitted to ENVI](#),” May 2022.

228 ENVI, [Evidence](#), 26 April 2022, 1210 (Craig Golinowski); ENVI, [Evidence](#), 29 March 2022, 1110 (Tristan Goodman); Chemistry Industry Association of Canada, “[Brief submitted to ENVI](#),” May 2022.

229 ENVI, [Evidence](#), 5 April 2022, 1120 (Simon Langlois-Bertrand).

230 ENVI, [Evidence](#), 26 April 2022, 1255 (Aaron Cosbey); ENVI, [Evidence](#), 5 April 2022, 1150 (Simon Langlois-Bertrand); ENVI, [Evidence](#), 31 March 2022, 1910 (Julia Levin).

231 ENVI, [Evidence](#), 29 March 2022, 1130 (Normand Mousseau).

232 Ibid.

233 ENVI, [Evidence](#), 31 March 2022, 1910 (Julia Levin).

234 ENVI, [Evidence](#), 29 March 2022, 1105 (Mark Agnew).

235 ENVI, [Evidence](#), 5 April 2022, 1150 (Simon Langlois-Bertrand); ENVI, [Evidence](#), 5 April 2022, 1135 (Eddy Pérez); ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker).

236 ENVI, [Evidence](#), 31 March 2022, 1835 (Julia Levin).

237 ENVI, [Evidence](#), 26 April 2022, 1255 (Aaron Cosbey).

In his brief, David Gooderham, provided the following clarification about the performance of a Canadian CCUS project:

According to the [Canada Energy Regulator (CER)], between 2015 and 2019 a cumulative 4 million tonnes (Mt) of CO<sub>2</sub> were captured by the Quest CCUS facility. In fact, during the same four-year period, a cumulative total of 300 Mt (about 80 Mt a year) was released into the atmosphere by oil sands facilities in Alberta. The single Quest project, which cost \$1.35 billion (two-thirds of that taxpayers' money), sequestered a little over 1% of the total. Significantly, it only captures 35% of the emissions at the Shell operation.<sup>238</sup> Dale Beugin noted that public investment in decarbonizing fossil fuel production "could generate fewer economic benefits than investment in areas that could capture a share of growing, transition-opportunity markets, such as hydrogen, mining of battery minerals, or low-carbon steel production."<sup>239</sup>

Julia Levin outlined her organization's estimate of public funding for carbon capture, utilization and storage projects in Canada:

The Canadian public has spent \$5.8 billion since 2000, and collectively those expensive projects are capturing only 3.5 megatonnes of carbon per year, which is [0.5%] of Canada's greenhouse gas emissions, and 70% of that captured carbon is used for enhanced oil recovery, i.e., more production; therefore, those huge public subsidies are resulting in more emissions, not less.<sup>240</sup>

Two of the Committee's witnesses were among the group of over 400 academics with expertise in climate change and economics who wrote to Deputy Prime Minister and Finance Minister Chrystia Freeland urging against the introduction of a tax credit to support CCUS.<sup>241</sup>

Several witnesses stated that a major problem with CCUS in the oil and gas sector is that it does nothing to reduce the approximately 80% of emissions that come after production, from burning fossil fuels in cars and homes, for energy generation, etc.<sup>242</sup> Addressing only the emissions from production will not help to achieve net-zero emissions by 2050, said Bronwen Tucker.<sup>243</sup> In fact, several witnesses said support for

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238 David Gooderham, "[Brief submitted to ENVI](#)", March 2022, p. 2.

239 ENVI, [Evidence](#), 31 March 2022, 1830 (Dale Beugin).

240 ENVI, [Evidence](#), 31 March 2022, 1835 (Julia Levin).

241 ENVI, [Evidence](#), 26 April 2022, 1130 (Jason MacLean), ENVI, [Evidence](#), 26 April 2022, 1130 (Justin Leroux).

242 ENVI, [Evidence](#), 26 April 2022, 1240 (Aaron Cosbey), ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker).

243 ENVI, [Evidence](#), 29 March 2022, 1210 (Bronwen Tucker).



CCUS can lock in emissions in the long term, preventing transition in an industry that really needs transition.<sup>244</sup>

Aaron Cosbey and Annie Chaloux both felt that supports for CCUS are an inefficient use of public funds.<sup>245</sup> Justin Leroux described the proposed CCUS tax credit as inefficient, “because the oil and gas sector has the wherewithal to invest in this technology on their own. If they do not find it profitable, it is because the reward for cleaning up—meaning the carbon price—is too low. It's better to increase the carbon price and use public dollars to support vulnerable households,” he said.<sup>246</sup>

On a different note, Craig Golinowski said that “the investment tax credit needs to be complemented by the carbon tax. Investors in carbon capture and storage need to have certainty that carbon pricing is entrenched and that a new government cannot kill it or reduce it.”<sup>247</sup>

### **Recommendation 18**

**That the Government of Canada ensure that all its policies and measures, including those related to support for the fossil fuel sector, are consistent with—and efficiently achieve—the country’s 2030 emissions reduction goals and its 2050 net zero emissions goals.**

### **Recommendation 19**

**That the Government of Canada conduct modelling and costing of climate policy options early in policy development across all departments and agencies, and that it establish criteria for government spending on programs that include consideration of a project’s contribution to net zero emissions by 2050 relative to its cost.**

### **Recommendation 20**

**That the Government of Canada consider carbon contracts for differences to ensure that companies that are eligible to produce credits for greenhouse gas emissions reductions**

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244 ENVI, [Evidence](#), 26 April 2022, 1240 (Annie Chaloux); ENVI, [Evidence](#), 5 April 2022, 1250 (Éric Pineault); ENVI, [Evidence](#), 5 April 2022, 1255 (Christina Hoicka).

245 ENVI, [Evidence](#), 26 April 2022, 1240 (Aaron Cosbey); ENVI, [Evidence](#), 26 April 2022, 1240 (Annie Chaloux).

246 ENVI, [Evidence](#), 26 April 2022, 1100 (Justin Leroux).

247 ENVI, [Evidence](#), 26 April 2022, 1210 (Craig Golinowski).

**have certainty of the value of those credits, regardless of future changes to the carbon price.**

## **Government Support for Profitable Companies**

The Committee notes that the oil and gas sector is among Canada's most economically significant industries.<sup>248</sup> While some witnesses argued that oil and gas companies need government support to assist with the high costs of carbon capture and to support a shift towards clean technologies, others argued that such firms are sufficiently profitable to, for example, provide bonuses to their chief executives and returns to their shareholders, and that they should be able to manage these costs without government support,<sup>249</sup> especially when government supports could be used effectively elsewhere.

The net revenue of large fossil fuel companies in Canada may help contextualize the estimated amounts of fossil fuel subsidies and supports. Tables 6 to 9 present the recent annual net revenue of selected large fossil fuel companies.<sup>250</sup> Information about the taxes and royalties paid by oil and gas companies to the federal, provincial and territorial governments is also presented for context, in Tables 10 to 13.

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248 ENVI, [Evidence](#), 5 April 2022, 1210 (Hon. Dan McTeague).

249 ENVI, [Evidence](#), 26 April 2022, 1150 (Justin Leroux); ENVI, [Evidence](#), 29 March 2022, 1105 (Larry Rousseau); ENVI, [Evidence](#), 29 March 2022, 1200 (Tara Peel); ENVI, [Evidence](#), 31 March 2022, 1925 (Julia Levin); ENVI, [Evidence](#), 5 April 2022, 1210 (Éric Pineault); ENVI, [Evidence](#), 26 April 2022, 1100 (Justin Leroux); ENVI, [Evidence](#), 29 March 2022, 1255 (Bronwen Tucker).

250 Note that some of these companies are producers, while others engage in refining and/or distributing.



**Table 6—2022 Revenue, Expenses and Net Income of Canada’s Six Largest Energy Companies, Ranked by Revenue (in CAD)**

Company	Total Revenue (in million)	Total Expenses (in million)	Net Income (in million)
Cenovus Energy Inc.	71,776	61,413	<b>6,450</b>
Suncor Energy Inc.	62,907	48,875	<b>9,077</b>
Imperial Oil Ltd	57,234	47,947	<b>7,340</b>
Enbridge Inc.	53,309	45,125	<b>3,003</b>
Canadian Natural Resources Ltd.	49,530	34,770	<b>10,937</b>
Parkland Corp.	35,462	34,213	<b>310</b>

Source: Table prepared by the Library of Parliament using data obtained from “[TMX Money](#),” accessed 26 April 2023.

**Table 7—2021 Revenue, Expenses and Net Income of Canada’s Six Largest Energy Companies, Ranked by Revenue (in CAD)**

Company	Total Revenue (in million)	Total Expenses (in million)	Net Income (in million)
Cenovus Energy Inc.	48,811	45,287	<b>587</b>
Enbridge Inc.	47,071	39,266	<b>6,189</b>
Suncor Energy Inc.	41,133	34,544	<b>4,119</b>
Imperial Oil Ltd	35,580	32,283	<b>2,479</b>
Canadian Natural Resources Ltd.	32,854	23,342	<b>7,664</b>
Parkland Corp.	21,468	20,643	<b>97</b>

Sources: Table prepared by the Library of Parliament using data obtained from “[FP500: The Premier Ranking of Corporate Canada](#),” *FP500: Financial Post Magazine*, 21 July 2022 (for 2021 ranking) and “[TMX Money](#),” accessed 26 April 2023 (for company financial data).



**Table 8—2020 Revenue, Expenses and Net Income of Canada's Six Largest Energy Companies, Ranked by Revenue (in CAD)**

Company	Total Revenue (in millions)	Total Expenses (in millions)	Net Income (in millions)
Enbridge Inc.	39,087	31,130	<b>3,363</b>
Suncor Energy Inc.	24,900	30,432	<b>-4,319</b>
Imperial Oil Ltd.	20,548	22,875	<b>-1,857</b>
Canadian Natural Resources Ltd.	17,491	17,936	<b>-435</b>
Parkland Corp.	14,011	13,601	<b>82</b>
Cenovus Energy Inc.	13,914	16,582	<b>-2,379</b>

Sources: Table prepared by the Library of Parliament using data obtained from "[FP500: The Premier Ranking of Corporate Canada](#)," *FP500: Financial Post Magazine*, 21 July, 2022 (for 2020 ranking) and "[TMX Money](#)," accessed 26 April 2023 (for company financial data).

**Table 9—2019 Revenue, Expenses and Net Income of Canada's Six Largest Energy Companies, Ranked by Revenue (in CAD)**

Company	Total Revenue (in million)	Total Expenses (in million)	Net Income (in million)
Enbridge Inc.	50,069	41,386	<b>5,705</b>
Suncor Energy Inc.	38,344	36,083	<b>2,899</b>
Imperial Oil Ltd.	32,194	30,011	<b>2,200</b>
Canadian Natural Resources Ltd.	24,394	18,802	<b>5,416</b>
Cenovus Energy Inc.	21,353	19,485	<b>2,194</b>
Husky Energy Inc.	19,983	21,978	<b>-1,370</b>

Sources: Table prepared by the Library of Parliament using data obtained from "[FP500: Canada's Largest Corporations by Revenue—FP500: The Premier Ranking of Corporate Canada](#)," *FP500: Financial Post Magazine*, 5 July 2021 (for 2019 ranking); "[TMX Money](#)," accessed 26 April 2023 (for company financial data); and [Husky: Our Energy—Annual Report 2019](#) (for Husky data).



**Table 10—Federal Taxes Collected From Oil and Gas Extraction and Support Services in Canada, 2010–2021 (in million CAD)**

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Federal tax, total	1,637	1,339	1,245	1,023	1,558	684	513	481	453	731	268	1,743

Source: Table prepared by the Library of Parliament using data obtained from Statistics Canada, "[Table 33-10-0500-01, Balance sheet, income statement and taxation statistics with selected financial ratios, by non-financial industries.](#)"

**Table 11—Federal Oil and Gas Royalties Collected by the Canadian Government, 2010–2021 (in million CAD)**

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues from oil and gas royalties	1,302	1,258	663	773	770	241	432	522	338	348	173 <sup>r</sup>	295 <sup>p</sup>

Source: Table prepared by the Library of Parliament using data obtained from Statistics Canada, "[Table 10-10-0016-01, Canadian government finance statistics for the federal government \(x 1,000,000\).](#)"

Note: Symbol legend: r = revised; p = preliminary.

**Table 12—Provincial Taxes Collected From Oil and Gas Extraction and Support Services in Canada, 2010–2021 (in million CAD)**

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Provincial income taxes	980	918	995	871	1,231	535	448	434	479	670	176	962

Source: Table prepared by the Library of Parliament using data obtained from Statistics Canada, "[Table 33-10-0500-01, Balance sheet, income statement and taxation statistics with selected financial ratios, by non-financial industries.](#)"

Note: The Statistics Canada source includes provincial income taxes and does not refer to other provincial taxes or to territories.

**Table 13—Revenue collected by provinces and territories from oil and gas royalties, 2010–2021 (in million CAD)**

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues from oil and gas royalties	13,580	16,337	11,251	13,701	12,432	4,412	4,917	6,693	7,237	7,378	4,164 <sup>r</sup>	18,802 <sup>p</sup>

Source: Table prepared by the Library of Parliament using data obtained from Statistics Canada, "[Table 10-10-0017-01, Canadian government finance statistics for the provincial and territorial governments \(x 1,000,000\).](#)"

Note: Symbol legend: r = revised; p = preliminary.

When fossil fuel firms have high revenue, some witnesses wondered why government supports would be justified."<sup>251</sup> Larry Rousseau suggested that "[i]nstead of subsidizing profitable oil and gas companies, fossil fuel [profits] should be taxed away and spent on just transition and energy affordability measures."<sup>252</sup>

## Recommendation 21

**That the Government of Canada increase support for scale-up of market-ready renewables and other low emissions solutions to the challenges of getting to net zero emissions.**

## CONCLUSION

The study revealed that the Government of Canada has been gradually eliminating certain fossil fuel subsidies for more than 15 years, but still offers a number of supports for the fossil fuel industry—which many witnesses consider to be subsidies. Workers and communities are among those who will need to be consulted in the process of a transition away from those subsidies, and the impacts of public spending on the economy must be considered carefully.

This report proposes several areas in which the Government of Canada can examine its options and consider making changes that will help it to achieve not just its

251 ENVI, [Evidence](#), 29 March 2022, 1200 (Tara Peel).

252 ENVI, [Evidence](#), 29 March 2022, 1105 (Larry Rousseau).



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commitments to phasing out subsidies and public finance for the fossil fuel sector, but also its *Paris Agreement* commitments on GHG emissions reductions.

## 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
<b>As an individual</b>	2022/03/29	10
Normand Mousseau, Scientific Director and Full Professor Éric Pineault, Professor, President of the Scientific Committee, Institute of Environmental Sciences, Université du Québec à Montréal		
<b>Canadian Association of Petroleum Producers</b>	2022/03/29	10
Ben Brunnen, Vice-President, Oil Sands, Fiscal and Economic Policy Shannon Joseph, Vice-President, Government Relations and Indigenous Affairs		
<b>Canadian Chamber of Commerce</b>	2022/03/29	10
Mark Agnew, Senior Vice-President, Policy and Government Relations		
<b>Canadian Labour Congress</b>	2022/03/29	10
Tara Peel, Political Assistant to the President Larry Rousseau, Executive Vice-President		
<b>Explorers and Producers Association of Canada</b>	2022/03/29	10
Tristan Goodman, President and Chief Executive Officer		
<b>Oil Change International</b>	2022/03/29	10
Bronwen Tucker, Public Finance Campaign Co-Manager		
<b>United Nations Environment Programme</b>	2022/03/29	10
Dr. Joy Aeree Kim, Lead, Fiscal Policy		
<b>As an individual</b>	2022/03/31	11
David Gooderham		

<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Canadian Climate Institute</b> Dale Beugin, Vice-President, Research and Analysis	2022/03/31	11
<b>Environmental Defence Canada</b> Julia Levin, Senior Climate and Energy Program Manager	2022/03/31	11
<b>Indian Resource Council Inc.</b> Stephen Buffalo, President and Chief Executive Officer	2022/03/31	11
<b>Macdonald-Laurier Institute</b> Dr. Heather Exner-Pirot, Senior Policy Analyst	2022/03/31	11
<b>As an individual</b> Dr. Christina Hoicka, Canada Research Chair in Urban Planning for Climate Change, Associate Professor in Geography and Civil Engineering, University of Victoria Éric Pineault, Professor, Economist, Institute of Environmental Sciences, Université du Québec à Montréal	2022/04/05	12
<b>Canadians for Affordable Energy</b> Hon. Dan McTeague, President	2022/04/05	12
<b>Climate Action Network Canada</b> Eddy Pérez, International Climate Diplomacy Manager	2022/04/05	12
<b>Office of the Auditor General</b> Jerry V. DeMarco, Commissioner of the Environment and Sustainable Development Sylvie Marchand, Director Heather Miller, Assistant Auditor General	2022/04/05	12
<b>Trottier Energy Institute</b> Simon Langlois-Bertrand, Research Associate	2022/04/05	12
<b>As an individual</b> Annie Chaloux, Associate Professor, Climate Policy Specialist, Université de Sherbrooke Justin Leroux, Professor of Applied Economics at HEC Montréal, Co-Director, Ethics and Economics at Centre de recherche en éthique Dr. Jason MacLean, Assistant Professor, Faculty of Law, University of New Brunswick	2022/04/26	13

<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Carbon Infrastructure Partners Corp.</b> Craig Golinowski, President and Managing Partner	2022/04/26	13
<b>Export Development Canada</b> Sarah Fulton, Senior Advisor, Environmental, Social, and Governance Policy Justine Hendricks, Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business Enablement Mairead Lavery, President and Chief Executive Officer	2022/04/26	13
<b>International Institute for Sustainable Development</b> Aaron Cosbey, Senior Associate	2022/04/26	13
<b>Department of Finance</b> Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch Oliver Rogerson, Director, Resources, Environment and Special Projects, Business Income Tax Division, Tax Policy Branch	2022/05/05	16
<b>Department of Natural Resources</b> Nada Vransy, Director General, Petroleum Resources Branch	2022/05/05	16
<b>Department of the Environment</b> Hilary Geller, Assistant Deputy Minister, Strategic Policy Branch Saba Khwaja, Executive Director, Current Analysis Joyce Yuan, Senior Economic Advisor, Current Analysis	2022/05/05	16





## APPENDIX B LIST OF BRIEFS

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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](#).

### **Above Ground**

**Boudreau, Jennyfer**

**Canadian Association of Petroleum Producers**

**Canadian Fuels Association**

**Center for International Environmental Law**

**Chaloux, Annie**

**Chemistry Industry Association of Canada**

**Climate Emergency Institute**

**Climate Justice Victoria**

**Environmental Defence Canada**

**Freedlander, Matthew**

**Gooderham, David**

**Hoicka, Christina**

**Leadnow Society**

**Milne, Onni**

**Mousseau, Normand**

**Plikett, Pierce**

**Saskatchewan Ministry of Energy and Resources**

**SFU350**

**Simard, Philippe**

**United Nations Environment Programme**



## 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. 10 to 18, 32, 37, 53, 54, 56, 60 to 63, 65 to 67, 69 and 70) is tabled.

Respectfully submitted,

Francis Scarpaleggia  
Chair



## The Conservative Party of Canada's Dissenting Report: Fossil Fuel Subsidies

*"We've eliminated all the fossil fuel subsidies at the federal level."*

Catherine McKenna

Former Liberal Minister of the Environment & Climate Change (2020)

Climate change is real. It needs to be addressed with realistic, concrete, and effective measures. Fiscal incentives should be utilized to develop and apply new technologies to reduce pollution. The value and expertise of the Canadian oil and gas industry clearly demonstrates why it is a part of the solution.

The Canadian oil and gas industry has a tremendous record of reducing pollution, reducing emissions, and the highest standard of environmental practices that ensures a sustainable environment for all.<sup>1</sup>

The Conservative members of the Standing Committee on the Environment and Sustainable Development cannot support the report *The Government of Canada's Planned Phase-Out of Fossil Fuel Subsidies and of Public Financing of the Fossil Fuel Sector* (hereafter, "the report"), as it fails to define what a fossil fuel subsidy is, and further does not provide the tools that are needed to reduce emissions including fiscal incentives that would apply to all industries.

The report also does not give credit to the work that has already been done to phase out subsidies to the sector, including by the previous Conservative Government. Rather, it panders to those who work against Canada's economic interests and funds their interventions with taxpayer money. The Government of Canada must work to capitalize on the contributions and opportunities of Canada's most valuable sector.<sup>2</sup>

Ironically, the report does not provide a substantive definition of a fossil fuel subsidy.

Worldwide fossil fuel consumption continues to rise. In addition, worldwide greenhouse gas emissions also continue to rise.<sup>3</sup> Despite trillions of dollars of investment over the past decade, the percentage of the world's energy consumption that is represented by fossil fuels is stubbornly north of 80% -- almost exactly where it was in 2010.<sup>4</sup> We recognize that the base level of energy consumption has increased across all energy sources.

Therefore, His Majesty's Official Opposition makes the following recommendations:

### Recommendation #1

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<sup>1</sup> Canada Action, [Article](#), April 21, 2021.

<sup>2</sup> Order Paper Question #1444, April 23, 2023.

<sup>3</sup> [ourworldindata.org/greenhouse-gas-emissions](https://ourworldindata.org/greenhouse-gas-emissions) (2020)

<sup>4</sup> [ourworldindata.org/fossil-fuels](https://ourworldindata.org/fossil-fuels) (2022)

*That the Government of Canada cancel the federal carbon tax on consumers; withdraw the new Clean Fuel Regulations; and end its initiative for a Clean Electricity Standard.*

**Recommendation #2**

*That private sector involvement, with fiscal incentives, should be encouraged to combat climate change and reduce pollution, as opposed to the current regime of trying to modify consumer behaviour through taxation.*

**Recommendation #3**

*That the Government of Canada support policies that remove the gatekeepers that inhibit resource development for First Nations and Indigenous peoples. We must ensure that they are partners in prosperity.*

**Recommendation #4**

*That the Government of Canada acknowledge our position as a global leader in environmental standards. The Government must develop fiscal initiatives and fiscal policies which support the export of Canadian technology, expertise, and natural resources.*

**Recommendation #5**

*That the Government of Canada follow the example of the United States, and quickly implement a regulatory regime that is more responsive to development—with a two-year limit for regulatory input—and move past the funded special interests that are stalling or blocking the development of oil and gas projects that follow our gold-standard environmental regulations and would bring prosperity to Canadians. This includes ensuring that low-emissions LNG can be developed and exported to global markets. Our inability to deliver clean solutions to the world is harming our environment, as the world seeks less environmentally-advanced solutions to their resource needs.*

**Recommendation #6**

*That the Government of Canada formally acknowledge that the development of Canadian-sourced oil and gas lowers emissions around the world, and that carbon leakage is a threat to the global climate. Carbon is embedded in the goods Canadians consume, no matter where they are produced.*

**Recommendation #7**

*That the Government of Canada align with our fiscal incentives with our main trading partner, the United States, in its approach to providing Investment Tax Credits and Production Tax Credits for Carbon Capture and Sequestration, and include Enhanced Oil Recovery in the credit mechanisms.*

**Recommendation #8**

*That Parliament direct the Parliamentary Budget Officer to examine and determine the role of subsidies in the Canadian economy generally, and compare these subsidies to any form of subsidy that could possibly be derived by the oil and gas industry.*

**Recommendation #9**

*That the Government of Canada examine only full-life cycle costs and benefits when it assesses subsidies in all sectors.*

**Recommendation #10**

*That the Government of Canada acknowledge the billions of dollars annually of economic rent (royalties, taxes, and other payments) derived from the production of Canadian oil and gas – for both export volumes and volumes consumed in Canada – and contrast that with the lack of economic rents received by Canadian governments by foreign-produced oil and gas, and finished products; and, thereby, deem imported oil, gas and refined products to be subsidized consumption.*

**Background:**

Climate change needs to be addressed with realistic, concrete, and effective measures. Ideological narratives will not suffice. That said, we would welcome fiscal incentives to reduce pollution for all industries.

The Liberal Government's pursuit of ideologically driven policies lacking any tangible justifications have resulted in Canadian consumers and businesses being forced to pay more throughout the supply chain, at the grocery store, and when fueling their vehicles.

The Conservative members of the Standing Committee on the Environment and Sustainable Development diligently examined this report. While doing so we were met with resistance from Liberal, Bloc Quebecois, and NDP members of the committee, including our efforts to establish a thorough, detailed, precise, and objective definition of a fossil fuel subsidy.

The committee's report exhibited a subjective view of fossil fuels rather than objectively analyzing any basis of fossil fuel subsidies. The lack of a definition of "fossil fuel subsidies," in our view, greatly impeded the committee's work in studying this matter.

The report understates the importance of Canadian-produced oil and gas domestically, and on the world stage, as it relates to its value to society and quality of life. It also displays a poor understanding of carbon leakage and its impacts.

## Definitions of Subsidies in the Report

The Conservative members of the committee are greatly concerned at the lack of definition of “fossil fuel subsidies” and “inefficient subsidies.” We feel this lack of direction enabled members of the committee to make misguided and negative statements about Canada’s oil and gas industry. And as a result, they made prejudicial recommendations about the financing of fossil fuels.

As stated by Former Liberal Minister of the Environment & Climate Change, Catherine McKenna, after leaving that post:

*“We’ve eliminated all the fossil fuel subsidies at the federal level.”<sup>1</sup>*

Indeed, the lack of clarity around this notion is nothing more than aimless virtue-signalling. The self-interested and government-funded detractors of the oil and gas industry needs to be more transparent with Canadians about the source of their funds, and the economic destruction their agenda, if implemented, would visit upon Canadians, particularly low-income Canadians. Information received from the government via written question showed the large amounts of money paid to environmental special interest groups under the current government, the same groups that have testified in front of parliamentary committees. The amount of money paid to these groups by the Government of Canada amounts to millions of dollars.<sup>2</sup>

Definitions vary greatly for various reasons within the Government of Canada. It was abundantly clear that Finance Canada had reservations about defining the term “inefficient subsidies” as indicated by Mr. Miodrag Jovanovic:

*“I’d like to start by clarifying the Department of Finance’s response to the Office of the Auditor General in 2019, I believe. The Department of Finance disagreed with the Office of the Auditor General’s statement that the department had not established a definition of an inefficient subsidy. We agreed to disagree on this. The primary reason for our disagreement is that the Office of the Auditor General expected to get a very prescriptive and clear definition of an inefficient subsidy.”<sup>3</sup>*

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<sup>1</sup> National Observer, [article](#), June 19, 2020.

<sup>2</sup> Kevin Lamoureux, Written Question, Tabled June 9, 2023.

<sup>3</sup> ENVI, [Evidence](#), May 5, 2022 (Miodrag Jovanovic, Assistant Deputy Minister, Tax Policy Branch, Department of Finance).



Dr. Heather Exner-Pirot highlighted the challenges associated with this study acknowledging that:

*“Not only do we have to define a “subsidy”, we also have to define what we mean by “fossil fuels”, because at their essence they're hydrocarbons, an incredibly accessible and versatile molecule with many uses that are critical to our modern way of life and living: textiles, rubber, digital devices, packaging, detergents, plastics, carbon fibre, medical equipment and fertilizer. In terms of the energy transition, they're also essential in the production of solar panels, wind turbine blades, batteries, thermal insulation for buildings and electric vehicle parts.”<sup>1</sup>*

The broad range of definitions of a “subsidy” highlights the need for clarity and precision which is not contained in the committee’s report.

## **The Economic and Societal Impact of Oil and Gas**

The Conservative members of the committee believe that the study of fossil fuel subsidies by the Standing Committee on Environment, completely missed the mark by ignoring the economic and social value of Canadian produced oil and gas. As former Liberal Member of Parliament, the Hon. Dan McTeague, stated:

*“The oil and gas sector, like it or not—and I have fought them—is 10% of our GDP. It represents \$20 billion to \$30 billion in revenues to pay my pension, and to pay your fees and your costs as a member of Parliament, as well as to support social programs from coast to coast. Most countries at this time would give their right arm to have what Canada has and its ability to send energy to the rest of the world.”<sup>2</sup>*

Because Canadian oil and gas is produced at a high environmental standard, it is a ‘high-cost barrel’ of production, that contributes significantly to government revenues through taxes and royalties.<sup>3</sup> This includes value for exported oil, for which Canadians receive revenue. In contrast, the importing of foreign oil is the subsidized barrel, and should be discouraged, as it adds much less economic value to the lives of Canadians. Thus, it is the foreign-imported barrel of oil that Canadians should properly look at as ‘subsidized’, in relation to our domestic production.

The taxes and royalties paid by oil and gas companies pay for schools, roads, hospitals, and other critical infrastructure projects. “Canada’s natural gas and oil industry also provided \$12 billion in average annual revenue to governments through tax, leases and royalty payments for the period 2019 to 2021.”<sup>4</sup> This is the largest contributor to the taxation revenues that enable

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<sup>1</sup> ENVI, [Evidence](#), March 31, 2022 (Dr. Heather Exner-Pirot, Senior Policy Analyst, Macdonald-Laurier Institute).

<sup>2</sup> ENVI, [Evidence](#), April 5, 2022 (Hon. Dan McTeague, President, Canadians for Affordable Energy).

<sup>3</sup> The Government of Canada’s Planned Phase-Out of Fossil Fuel Subsidies and of Public Financing of the Fossil Fuel Sector (Pages 80-81), 2023.

<sup>4</sup> “Canada’s Economic Contribution, CAPP, n.d., <https://www.capp.ca/economy/canadian-economic-contribution/>.

the equalization system in Canada, so provinces can provide social programs. The fact that the Liberal, New Democratic, and Bloc Quebecois members ignore these benefits completely disregards the hard work of hundreds of thousands of Canadians who work in Canada's oil and gas industry.

## Ensuring Energy Security for Canada and our Allies

The war against Ukraine and several other geopolitical and economic events has resulted in a massive increase for oil and gas. Countries, such as Germany, are held hostage to despots like Vladimir Putin because they are so desperate for energy. The German Chancellor, Olaf Scholz, on an official visit in August, 2022, pleaded: "we would really like Canada to export more (liquefied natural gas, LNG) to Europe."<sup>1</sup> This plea from an ally was ignored and dismissed by Prime Minister Justin Trudeau "*because there has never been a strong business case*" for liquefied natural gas exports from Canada.<sup>2</sup> Canada's allies should be able to count on us to be a reliable supplier of oil and gas.

When the Liberal Government was elected in 2015, there were 18 LNG projects on the table. Since that time, none have been completed and only 1 is under construction. This has contributed in a worldwide shift to unethical energy.

*"In 2020, six out of the top 10 oil-producing nations were non-democratic or failed states. Those six nations accounted for about 40 percent of global oil production, while Canada accounted for just six percent."*<sup>3</sup> Of these ten nations, Canada is the only one that has imposed a national carbon tax on consumers, despite the Canadian oil and gas industry being viewed around the world as the most environmentally-advanced jurisdiction. Even President Biden in the United States, our neighbour - and both our largest trading partner and our largest competitor - refuses to impose a national carbon tax."

The concept of carbon leakage is a serious issue that the committee's report does not address, and by failing to address this, it hurts both Canada and the world. The lack of understanding and definition of carbon leakage by other parties, and the prominent role it plays in our national, energy, and climate security, should have necessitated a clear definition of carbon leakage within the report and throughout the study.

Consequently, the Canadian government's approach penalizes our own consumers while yielding economic ground worldwide to energy resources produced from environmental laggards that are unaccountable and ethically suspect.

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<sup>1</sup> Canadian Broadcasting Corporation, [article](#), August 23, 2022 (Nahayat Tizhoosh, Peter Zimonjic).

<sup>2</sup> Financial Post, [article](#), Aug 22, 2022 (Meghan Potkins).

<sup>3</sup> Toronto Star, [article](#), April 14, 2022 (Richie Assaly).

## Emissions Reducing Technology

Canadian oil and gas have been instrumental in the development of clean technology including emissions reduction innovation. By denying the positive impact of Canada's oil and gas industry, other political parties are stunting the development and implementation of clean technology in Canada. Canada's oil and gas industry is the largest contributor to cleantech investment in Canada. Indeed, fully three-quarters of Canadian private sector investment in clean technology comes from this industry.<sup>1</sup>

By way of example, Dr. Exner-Pirot mentions that:

*"Ammonia and blue hydrogen are also derived from natural gas, a fossil fuel, and a consensus is emerging that ammonia and hydrogen will play a key role in the energy transition."<sup>2</sup> As previously noted, petrochemicals also are used in the manufacturing of solar panels, wind turbine blades, batteries, thermal insulation for buildings and electric vehicle parts."<sup>3</sup>*

There also must be context in terms of the role of the public sector to work collaboratively with oil and gas companies. For example, Dr. Exner-Pirot shared:

*"Carbon capture, where it is a new untested technology, where there are large upfront costs, competitors in the oil and gas world elsewhere aren't doing carbon capture and aren't reducing the methane in the way we are. When you're asking the Canadian oil and gas industry to do something at a higher standard and at a more expensive level, which makes their production more expensive and thus less competitive, that's when I think there's a role for the public sector to step in."<sup>4</sup>*

It is our opinion that fiscal incentives which support the innovation of clean technologies that reduce pollution and emissions be available to industries in their efforts to innovate.

Further, Mr. Tristan Goodman stated:

*"I believe it is an error to classify as a fossil fuel subsidy government initiatives that support Canadian companies in implementing clean technology that reduces emissions through hydrogen development, geothermal, CCUS, methane capture, wind, solar and other innovations."<sup>5</sup>*

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<sup>1</sup> Context.capp.ca/energy-matters, [article](#), October 3, 2019 (Canadian Association of Petroleum Producers).

<sup>2</sup> ENVI, [Evidence](#), March 31, 2022 (Dr. Heather Exner-Pirot, Senior Policy Analyst, Macdonald-Laurier Institute).

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> ENVI, [Evidence](#), March 29, 2022 (Tristan Goodman, President and Chief Executive Officer, Explorers and Producers Association of Canada).

## Overseas Canadian Subsidies

In 2021, Canada purchased over \$30 billion of crude oil and refined oil products. From which, related to crude oil, billions of dollars in government revenue were lost to other jurisdictions such as the United States, Saudi Arabia, and Nigeria (the top three source countries)<sup>1</sup>.

Canadian-produced oil and gas provided a total of \$21.8 billion to Canadian government revenues in 2021<sup>2</sup>. This taxation windfall was based on production in Canada, no matter where the product was consumed. To the contrary, the foreign oil and gas consumed in Canada results in minimal revenues for governments in Canada. In addition, because of infrastructure constraints, Canadian exports to the United States received discounted pricing<sup>3</sup>. If there were fewer constraints, Canadian government revenues would be higher. Conversely, imports of foreign oil and gas into Canada are priced with no discount.

Oil and gas revenues received by governments are the backbone of Canada's equalization regime, whereby government revenues received provincially are 'equalized' across Canadian jurisdictions.<sup>4</sup>

## In Conclusion

Canadian oil and gas fuels our nation, and can fuel our allies. In a world where oil and gas from democratic and reliable sources is essential to global peace and security, Canada stands above the rest.

Contributing \$21.8 billion to governments, the oil and gas industry is the largest taxpayer in Canada and has set the gold-standard in environmental and emissions frameworks.

In 2009, under then-Prime Minister, Stephen Harper, Canada joined other G20 countries in agreeing to "phase out and rationalize... inefficient fossil fuel subsidies" over the "medium term."<sup>5</sup> This was a massive step to ensure that Canada would maintain its energy leadership on the world stage while ensuring the environmental was protected.

In conclusion, Conservative members of the committee want to emphasize the importance of the Canadian oil and gas industry and its contribution to both the economy and to Canada's future.

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<sup>1</sup> Canada Energy Regulator, [article](#), March 3, 2022.

<sup>2</sup> The Government of Canada's Planned Phase-Out of Fossil Fuel Subsidies and of Public Financing of the Fossil Fuel Sector (Pages 80-81), 2023.

<sup>3</sup> Canadian Broadcasting Corporation, [article](#), June 8, 2022, (Pete Evans).

<sup>4</sup> <https://www.canada.ca/en/department-finance/programs/federal-transfers/equalization.html>

<sup>5</sup> Canadian Broadcasting Corporation. Article. March 9, 2022 (Emily Chung).

## COMPLEMENTARY REPORT: Study on Fossil Fuel Subsidies – Monique Pauzé, Bloc Québécois MP (Repentigny)

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The Bloc Québécois would like to thank all the witnesses, citizens and organizations who participated in this study. The briefs sent to the Committee, as well as the testimonies and answers to our questions, helped further our knowledge on the issue at hand. We would also like to express our gratitude to the dedicated analysts and those at the Library of Parliament for their work.

The oil and gas sector is accountable for approximately 26% of Canada's GHG emissions, making it the economic sector generating highest emissions in 2019. Since 2005, emissions from this sector have increased by 137%, mainly due to significant growth in fossil fuel production.

Examining the on-going practice of subsidizing this sector of the economy remains vital in the current context, one where the State must honor its international commitments made in 2021 under the Paris Agreement. To achieve this, the Canadian government must undertake bold and effective action to reduce its GHG emissions by 40-45% (to 2005 levels) by 2030 and reach net-zero by 2050.

If this study has taken an inordinately long time, it is because the subject is likely to raise positions that are often diametrically opposed as to what would justify, or not, public funding for this sector.

The Bloc Québécois deplores the fact that some of the testimonies were intended to mislead, namely one suggesting the rising costs of solar energy and the use of coal required to manufacture solar panels<sup>1</sup> or statements extolling the merits and efficiency of carbon capture, utilization and storage (CCUS) technology, without providing any supporting evidence<sup>2</sup> - some going as far as claiming that enhanced oil recovery (EOR) is not only good for the economy, it is also good for the environment.

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<sup>1</sup> Craig Galinowski is President and managing partner at Carbon Infrastructure Partners Corp. a private equity firm that is invested in oil and gas production, and instigator of a fund product to advance investment in carbon capture and storage. Full testimony: [Evidence - ENVI \(44-1\) - No. 13 - House of Commons of Canada \(ourcommons.ca\)](#)

<sup>2</sup> Mark Agnew – Full testimony [Evidence - ENVI \(44-1\) - No. 10 - House of Commons of Canada \(ourcommons.ca\)](#)  
Tristan Goodman – Full testimony [Evidence - ENVI \(44-1\) - No. 10 - House of Commons of Canada \(ourcommons.ca\)](#)  
Heather Exner-Pirot – Full testimony [Evidence - ENVI \(44-1\) - No. 11 - House of Commons of Canada \(ourcommons.ca\)](#)

## Phasing out fossil fuel subsidies: Efficient, Inefficient

On-going statements, shifting commitments in 2009, 2012, 2015, instructions to the 2021 mandate letters and several more commitments in 2021: how can we explain the government's inaction on the issue of subsidies to the fossil fuel industry?

We believe it can be attributed to "semantic relentlessness" which rejects any established definition of what a subsidy is - in the broadest sense - in order to determine a **Canadian** definition of the term subsidy, **specific to fossil fuels**. To achieve this, the government is using the tandem words efficient-inefficient.

This study served as a reminder that definitions of what constitutes a "subsidy" already exist: indeed, as specified in the report, international organizations such as the International Monetary Fund (IMF), the Organization for International Cooperation and Development (OECD) and even the World Trade Organization (WTO), have determined concise definitions that are widely recognized throughout the world. Canada has chosen to do otherwise.

The study also revealed the full extent of the government's lack of interest in implementing its own plans to phase out public financing of the fossil fuel sector, which included the financing involving federal Crown corporations such as Export and Development Canada (EDC).

The Assistant Deputy Minister of the Strategic Policy Branch at the Ministry of the Environment and Climate Change (ECCC) confirmed in her testimony<sup>3</sup> that these proceedings were still at the planning stage, and that no specific initiative aimed at achieving this "phase-out" was in place.

As for EDC's President and CEO, she acknowledged being unaware of the internationally recognized definitions of a subsidy, while pointing out that EDC did not offer any grants or any subsidies. The fact that the government of Canada incurs financial obligations – with taxpayers' money - through loan guarantees via EDC's Canada Account still does make it a subsidy<sup>4</sup>.

The Bloc Québécois is concerned by the willful blindness of an organization that has earmarked \$13.6 billion in 2021 to support carbon-intensive industries, with the oil and gas sector at the top of the list. Such support explains why Canada is considered as a dunce when it comes to environmental issues when compared to G20 and OECD countries. This financial support is directly linked to Canada's mediocre G20 and OECD rankings.

Canada may echo, over and over again, that EDC does not subsidize this sector: at the end of the day, international organizations are doing the math, indifferent to Canada's dithering.

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<sup>3</sup> Hilary Geller – Full testimony [Evidence - ENVI \(44-1\) - No. 16 - House of Commons of Canada \(ourcommons.ca\)](#)

<sup>4</sup> Mairead Lavery – Full testimony [Evidence - ENVI \(44-1\) - No. 13 - House of Commons of Canada \(ourcommons.ca\)](#)

## Expert testimony on carbon capture, utilization and storage -CCUS

Energy policy specialists, academics and other experts whose work focuses on these issues were specific in their comments and straightforward in answering members questions<sup>5</sup>.

They highlighted that the federal government should not be providing any financial assistance or subsidies for CCUS, some witnesses harshly criticizing the technology as a “lifeline”, a means of perpetuating the industry that is at the very root of the climate crisis.

A letter<sup>6</sup> signed by over 400 academics, scientists and experts was sent to the government in January 2022, its content, urging the government not to fund this immature technology: extremely expensive, impossible to deploy in time, having cumulated failures wherever it has been attempted. The facts, along with the undisputed fact that CCUS is used for enhanced oil recovery (EOR), has not deterred the government from including it throughout its 2023 budget. Two signatories to this letter were invited to testify for the study.

A third signatory of this letter, Éric Pineault, Ph.D. – Professor at *Institut des sciences de l’environnement - Université du Québec à Montréal*, was unable to testify due to the defective headset he had received prior to his scheduled participation to the study. The Bloc Québécois believes it worthwhile to quote him (our translation):

*“On the international market, are we sending the right signal by saying that our research capacity and fiscal leeway are in line with a model that aims to make the most polluting oil on the market less polluting? [...] The CCUS technology is not consistent with a transition strategy<sup>7</sup>.”*

There are no recommendations echoing the comments made by witnesses critical of the CCUS.

We understand that committee reports must focus on witness testimony, as well as on the contents of briefs submitted to the members. However, we cannot disregard the irreconcilable government policies and actions put forward since March 2022, shortly before the committee began its work.

The last few months have confirmed what we foresaw: the Canadian government is continuing its policy of “turning a deaf ear”, not addressing the misuse of public funds, going as far as increasing its financial support for the fossil fuel sector.

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<sup>5</sup> Jason MacLean, Justin Leroux, Aaron Cosbey, Annie Chaloult, Normand Mousseau, David Gooderham, Christina Hoicka, Simon Langlois-Bertrand, Eddy Perez, Dale Beugin, Julia Levin

<sup>6</sup> [Letter-from-Academics-re-CCUS-tax-investment-credit-January-2022-4.pdf \(pipelineonline.ca\)](#)

<sup>7</sup> [400 universitaires s’opposent à une aide fédérale au stockage du carbone | Radio-Canada.ca](#) – 20 janvier 2022

## Incentivizing the source of the problem - EDC and Canada Account

While committee was progressing through the study, EDC obtained new loan guarantees from the Government of Canada for the Trans Mountain pipeline expansion. The Bloc Québécois considers that this modus operandi - through the Canada Account – is, without a doubt a (hidden?) subsidy. (Emphasis added)

- *Canada Account is used to support export transactions **which we are unable to support, but which are determined by the Minister for International Trade to be in Canada's national interest.**[...]*
- *We negotiate, execute and administer these transactions on the same basis as corporate account activities **but the risks are assumed by the Federal government.***
- *Before we enter into a Canada Account transaction, we require authorization from the Minister for International Trade, with the concurrence of the Minister of Finance. **Transactions exceeding \$50 million or those of a sensitive nature are, in practice, approved by Cabinet**<sup>8</sup>.*

We must also express dismay regarding the disingenuous behavior of the government, following the loan guarantee of \$10 billion it provided to the Trans Mountain pipeline expansion project. Although the May 2022 transaction made through the Canada Account had the minister of Finance commit to no longer provide public funding for the project, we learned that additional loan guarantees were concluded in March and May of 2023. The total costs are now estimated at \$30.9 billion.

## Budget 2023 - tax measures to benefit the oil and gas sector

The 2023 federal budget<sup>9</sup> is exactly what the Bloc Québécois apprehended. While this study on fossil fuel subsidies was proceeding, the industry's enthusiasm for CCUS (also voiced by industry stakeholders in committee hearings) convinced the government: ultimately, the investment tax credit and the clean technology tax credit will give access to several tens of billions of dollars in tax benefits to the oil and gas sector.

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<sup>8</sup> <https://www.edc.ca/en/about-us/corporate/disclosure/reporting-transactions/canada-account.html>

<sup>9</sup> Government of Canada website - [Budget 2023 — A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future](#) [Budget 2023 — A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future](#)



The Bloc Québécois considers these measures irresponsible and unjustifiable in the current context:

- Irresponsible, because genuine action to fight climate change requires major investments but more importantly, the accelerated and scaled deployment of clean technologies (with a focus prioritizing renewable energies). Those technologies that will enable us to reduce our GHG emissions, meet our commitments under the Paris Agreement and, above all, reduce our dependence on fossil fuels.
- Unjustifiable, because financial statements (2022) of the major oil and gas companies operating in Canada show profits that are unprecedented in the industry's history in Canada, soaring over \$38 billion (\$220 billion internationally)<sup>10</sup>. In light of the wealth provided to company executives and shareholders, it is fair to claim that these companies could be expected to invest more and not be offered public funds for projects such as CCUS.

The Bloc Québécois believes that the 21 recommendations made in the report should have been studied further. Recommendations 17 and 18 reflect the inconsistency of the government's actions: there is absolutely no point in considering the other recommendations if these two proposals are favored by the government.

The Bloc Québécois vigorously denounces these inconsistencies, which could ultimately lead to our failure in meeting our commitments made under the Paris Agreement.

Our recommendation for this study was the following:

*That the Government of Canada, in accordance with :*

1. *Its commitment to the G7 and G20;*
2. *Its 2030 GHG emission reduction target and net-zero by 2050 goal, confirmed by international commitments under the Paris Agreement and the Glasgow Agreement;*
3. *Its commitment to eliminate all forms of fossil fuel subsidies by 2023*

*a) move quickly to eliminate all subsidies to the fossil fuel industry and plan to end government funding to this sector, including Crown corporations;*

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<sup>10</sup> Statista [Leading Canadian oil and gas firms revenue 2022 | Statista](#) ,  
[These oilsands companies raked in \\$35B last year. Now, they're asking for public money to help fight climate change | The Star](#)

*b) plan with great care and attention for workers and indigenous communities, the transition to a net-zero economy;*

*c) ensure that public funds in support of the energy sector are exclusively dedicated to renewable energy, with a focus on projects involving green technologies that are ready for commercialization and deployment;*

*d) finalize by the end of 2023 the G20 peer review on fossil fuel subsidies, in conjunction with Argentina, a review process that begun in 2018 and, to this day, is unfulfilled,*

*e) Publish the report and synthesis of this review upon its completion.*

The Bloc Québécois considers that there is no such thing as an **efficient** fossil fuel subsidy. **Any and all subsidies to the fossil fuel sector are inefficient.**

We believe that the only eligible subsidies should be those dedicated to retraining and supporting the transition of the workforce from this sector to industries that aim to produce renewable energies.

## **Dissenting Report of the New Democratic Party of Canada**

New Democrats would like to thank all the witnesses who appeared before the Standing Committee on the Environment and Sustainable Development and those who submitted written briefs during the Committee's study of the government's commitments to accelerate Canada's G20 commitment to eliminate fossil fuel subsidies from 2025 to 2023, as well as to develop a plan to phase out public financing of the fossil fuel sector, including by federal Crown corporations.

While we support some of the recommendations in the report, we differ on some of the conclusions and are concerned that important perspectives and recommendations have not been addressed.

The committee heard from witnesses that all subsidies, public financing, and other fiscal supports, including tax measures, to the fossil fuel sector should be considered inefficient fossil fuel subsidies and that so-called emissions reduction subsidies to oil and gas companies to reduce their own pollution contribute more to increased production and rising corporate profits than they do to the reduction of carbon emissions. The committee also heard significant concerns about the government's intention to subsidize carbon capture and storage technology through tax credits available to oil and gas companies for a technology that has not yet been proven to work at the scale required, is most often used to increase production, and is one of the most expensive and least effective ways to reduce emissions. Witnesses also emphasized that renewable energy receives only a fraction of the financial support handed out to the oil and gas sector, despite the need to rapidly scale up this technology to meet our climate targets and build a sustainable economy for Canadians.

### Recommendations submitted by the New Democratic Party:

#### **Recommendation 1**

That the Government of Canada eliminate all subsidies, public financing, and other fiscal supports provided to the oil and gas sector before the end of 2023, including financial support provided through Export Development Canada and the Carbon Capture Tax Credit, and redirect those funds towards a just, renewable energy transition and supports for workers and communities.

#### **Recommendation 2**

That the Government of Canada introduce legislation that would ban any future fossil fuel subsidies.

#### **Recommendation 3**

That the Government of Canada attach strict conditions to all funding programs to ensure government spending is aligned with Canada's obligations under the Paris Agreement and the creation of good-paying sustainable jobs for workers.

