

***A Real and Urgent Crisis:
Responding to Canada's Assessment Framework of
Inefficient Fossil Fuel Subsidies***

Submission to Environment and Climate Change Canada

June 2019

Citizens for Public Justice seeks human flourishing and the integrity of creation as our faithful response to God's call for love and justice.

We envision a world in which individuals, communities, societal institutions, and governments all contribute to and benefit from the common good.

Our mission is to promote public justice in Canada by shaping key public policy debates through research and analysis, publishing, and public dialogue. CPJ encourages citizens, leaders in society, and governments to support policies and practices which reflect God's call for love, justice, and the flourishing of Creation.

A Real and Urgent Crisis: Responding to Canada's Assessment Framework of Inefficient Fossil Fuel Subsidies

According to the Climate Emergency motion passed by the House of Commons on June 17, 2019, the urgency of the climate crisis requires that “Canada commit to meeting its national emissions target under the Paris Agreement and to making **deeper reductions** in line with the Agreement’s objective of **holding global warming below two degrees Celsius and pursuing efforts to keep global warming below 1.5 degrees Celsius.**” (emphasis added)

It is in the context of this emergency that [Citizens for Public Justice \(CPJ\)](#) is contributing to the Environment and Climate Change Canada (ECCC)’s assessment of fossil fuel subsidies.

CPJ is a faith-based policy organization that believes federal policy can and must serve the public good. Our research, policy analysis, education, and advocacy work are grounded in an understanding of the sacredness of creation and the dignity of all people. From this perspective, the central role of government is to promote the well-being of citizens and residents and the flourishing of the Earth.

Climate Chaos: Implications for Canada

Average global temperatures have already risen 1 C, and we are experiencing more intense storms, species loss, and rising seas as a result. The landmark 2018 Intergovernmental Panel on Climate Change (IPCC) report revealed that “climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth are projected to increase with global warming of 1.5 C and increase further with 2 C.”

The connection between greenhouse gas (GHG) emissions and rising temperatures is well established. And, as noted by the Commissioner of the Environment and Sustainable Development, Julie Gelfand:

While fossil fuels play an important role in Canada’s economy, their consumption is the main source of [GHG] emissions. Fossil fuels also have a negative impact on the health of Canadians. Furthermore, inefficient subsidies to the fossil fuel sector encourage wasteful consumption, undermine efforts to address climate change, and discourage investment in clean energy sources.

Thanks to the extensive research by ECCC scientists, as reported in “[Canada’s Changing Climate Report](#),” the implications of a warming world for Canada are now clear. The range of impacts is striking: glacial melt, flood risks, seasonal shifts, more snow and rain in winter, among others. Canada’s far north and coastal regions face particular challenges, but it is clear that no part of the country is immune to climate impacts. The report lays out, in no uncertain terms, that Canada must immediately invest in a just transition towards a decarbonized economy.

Canada’s Commitment to Phase-out Fossil Fuel Subsidies

As noted in the [ECCC subsidies discussion document](#):

In 2009, Canada and other Group of Twenty (G20) countries committed to phase out and rationalize inefficient fossil fuel subsidies, recognizing that these subsidies can encourage wasteful consumption, impede investment in clean energy sources, and undermine efforts to fight the threat of climate

change. For its part, Canada went one step further and committed to rationalize inefficient fossil fuel subsidies by 2025.

Informed by signals from all major parties that they supported a fossil fuel subsidy phase-out, CPJ launched the faith-in-action climate campaign, **Give it up for the Earth!** in 2017. This campaign is centred on a call to the federal government to stop subsidizing the fossil fuel sector and invest in a just transition that will reduce emissions, create good green jobs, and support communities now and well into the future.

Key to Canada's 2009 promise, subsequent commitments, and especially the federal government's declaration of a national climate emergency, is the direct connection between fossil fuel production, greenhouse gas emissions, and the exacerbation of climate chaos.

The oil and gas sector is the largest single contributor to Canada's GHG emissions, and by extension, the main Canadian driver of climate change. [International reports](#) suggest that even with a full phase-out of coal-powered energy, the continued use of oil and gas in projects currently in operation around the world would cause average global temperatures to exceed 1.5 C.

The way we spend our money reflects what we deem important. What we buy and where we invest are a reflection of our values and priorities. Social and environmental concerns, therefore, must determine our economic goals – and our methods of achieving them.

In order to avert catastrophic climate change, Canada needs to increase ambition and align our climate, energy, and financial policies with our international climate commitments and climate science. Part of this will require us to establish a clear, comprehensive definition of what constitutes a fossil fuel subsidy.

Aligning Economic Priorities with the Scientific Imperative of Reducing Emissions

The "Discussion Document for Canada's Assessment Framework of Inefficient Fossil Fuel Subsidies" acknowledges the problematic impacts of subsidizing fossil fuels, and the importance of transitioning to a low-carbon economy. It also provides a clear and complete explanation of what is meant by "fossil fuels" and "the fossil fuel sector." It presents a range of internationally recognized definitions for "fossil fuel subsidy" and expresses a preference for taking the "broadest approach to the G20 commitment."

Unfortunately, however, the "broad frame" doesn't appear to hold when looking specifically at the definitions under consideration.

Q1. Is the definition of "fossil fuel subsidy" and its associated criteria clear and practical? If not, what are your suggestions for improving them?

"Non-tax fossil fuel subsidies are defined as federal non-tax programs that provide preferential treatment that specifically supports the production or consumption of fossil fuels."
(Discussion Document, p. 6)

The proposed definition is reasonably clear, but overly narrow when compared to those offered from the World Trade Organization (WTO), the International Energy Agency (IAE), and the Organization for

Economic Co-operation and Development (OECD). While others emphasize “benefits conferred” (e.g. lower production costs, higher revenues), the ECCC proposal narrows in on “specific preferential treatment,” arguing that if the benefit of a particular measure is available to industries both inside and outside the fossil fuel sector, it is not considered a subsidy.

This, of course, speaks to the notion of “specificity” (one of the framework’s “associated criteria”). Only part of the argument in opposition to fossil fuel subsidies relates to the sector being favoured over others (such as small-scale renewables). The major driver of opposition to government funding of fossil fuel businesses is precisely because they are *fossil fuel businesses* – and incredibly lucrative ones at that.

The idea that other sectors are benefitting in the same way doesn’t account for the devastating environmental and climate impacts of fossil fuel production and consumption. Nor does it consider the ways in which funding fossil fuel production and consumption contradict Canada’s commitment to the Paris Agreement, in particular Article 2.1, which “aims to strengthen the global response to the threat of climate change” and Article 4.1, which stipulates that parties to the agreement will “aim to reach global peaking of greenhouse gas emissions as soon as possible.” Finally, by supporting further exploration, development, and consumption of the fossil fuel sector through financial mechanisms and direct government support, the definition ignores the devastating messages of conservative climate science put forward by the IPCC and the ECCC itself.

In our popular education materials, Citizens for Public Justice defines “subsidy” as follows:

A subsidy is a financial benefit afforded to taxpayers, normally to a business or industry, by the government. Both tax measures and non-tax measures count as subsidies. Tax measures reduce the amount of taxes that an individual or company is required to pay the government. Sometimes this takes the form of a tax rebate. Non-tax measures include grants and other direct government funding.

For the purposes of the assessment framework under consideration, we propose that a subsidy be defined as, “**Any financial contribution provided by the government either directly or indirectly (including direct budgetary transfers and tax expenditures) that benefits a business or industry, for example by lowering the cost of fossil fuel production or raising the revenues of fossil fuel producers.**”

Key to this proposal is the removal of “specificity” as we believe that measures that directly support the fossil fuel sector should be considered independently of supports available to other industries.

Q2. Is the criteria proposed to assess “inefficiency” clear and practical? If not, what are your suggestions for improving them?

On the surface at least, the qualifier “inefficient” serves primarily to afford governments some leeway by seemingly referring only to visible financial subsidies that are understood to distort markets.

This is true even once “inefficiency” is defined.

Unlike the ECCC’s restrictive conceptualization of “subsidies,” the corresponding criteria offered to define “inefficiency” is so vast as to provide little clarity about practical considerations. And the minimal clarity it does provide indicates that

Inefficiency criteria, condensed from Discussion Document (pp. 8-9)

- The need for policy intervention.
- The policy objectives that the measure intends to achieve.
- Potential alternative measures.

assessments of inefficiency would be based on highly subjective considerations, particularly relating to “the policy objectives that the measure intends to achieve.” For example, a measure could have the objective of facilitating (e.g. lowering the cost of) oil exploration, and it could achieve that objective rather efficiently, thereby disqualifying it as an “inefficient fossil fuel subsidy.”

Subsidies to the fossil fuel sector must therefore be assessed against their consistency with international climate policy objectives (and not narrow economic considerations).

Q3. Are there other considerations not currently in the framework that should be included?

As demonstrated throughout this submission, the primary consideration when deciding whether or not to provide government support (i.e. subsidize) to the fossil fuel industry should be how such funding would help or hinder Canada’s response to the climate emergency.

Recommendations:

1. That, following the lead of ECCC, Finance Canada publish a list of all tax measures that (a) it identifies as subsidies to the fossil fuel sector, and (b) may also be considered fossil fuel subsidies according to the definitions provided by international agencies, including the World Trade Organization, the International Energy Agency, and the Organization for Economic Co-operation and Development.
2. That ECCC, and the whole of the Government of Canada, adopt a clear and comprehensive definition of “fossil fuel subsidy” that more fully accounts for climate considerations. And, that any qualifiers, such as “inefficient” be clarified and rationalized against Canada’s climate commitments in order to ensure a policy approach that aligns with the principles of the Paris Agreement and global climate science.
3. That ECCC and Finance Canada establish a list of key questions against which federal government funding decisions must be tested. For example,
 - Will the subsidy contribute to an increase or decrease in GHG emissions?
 - Is the subsidy compliant with the principles of the Paris Agreement, namely articles 2.1 and 4.1?
 - Is the subsidy consistent with the International Energy Agency assessment that upwards of 75 per cent of known fossil fuel reserves must stay underground in order to avoid catastrophic climate change? Or with emissions-reduction recommendations identified by the IPCC?

Meaningful, far-reaching action to address climate change is no longer optional. Major adjustments are urgently needed to avoid climate collapse and to sustain life on this planet.

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