WHY FOSSIL FUEL SUBSIDIES DON'T BELONG IN CANADA'S CLIMATE POLICY

In December 2015, world leaders – informed by the international scientific community – signed the historic Paris Agreement. Together, they said that all nations must work together to "strengthen the global response to the threat of climate change ... [by] holding the increase in the global average temperature to well below 2°C above pre-industrial levels" (striving for 1.5°C).

In Canada, this moment was marked by pride and delight, as citizens witnessed the newly-elected government stepping into a leadership role on the international stage pressing for more ambitious climate targets and the recognition of the rights of the most marginalized. To some extent, Canada's vocal support for the Paris Agreement translated into action. But Canadian emissions haven't yet decreased. And current federal policies don't align with the Paris Agreement's temperature goals.

One of the most egregious in consistencies in Canadian climate and energy policy is the continued subsidization of the fossil fuel industry. At the G20 summit in Pittsburgh in 2009, Canada joined world leaders in pledging to phase out inefficient fossil fuel subsidies over the medium term. This commitment was later included in the 2015 UN Sustainable Development Goals and the 2015 Liberal election platform. At the June 2016 North American Leaders' Summit, Canada, the U.S., and Mexico once again pledged to phase out inefficient fossil fuel subsidies by 2025.

It is time for policy *and financial* decisions that move us towards the Paris Agreement. The Government of Canada not only has an historic responsibility to end these subsidies, but this is also a tremendous opportunity to provide climate leadership by taking meaningful action.

As individuals and families, we know that 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. The same is true of government spending. Social and environmental concerns must determine our economic goals – and our methods of achieving them.

That is why ***Give it up for the Earth!*** **is calling on the Canadian federal government to end all subsidies to the fossil fuel industry right away.** The $1.6 billion saved annually can then be invested in renewable energy, energy efficiency, and skills development, setting Canada on a course for a just transition to clean energy by 2050.

"While fossil fuels play and important role in Canada's economy, their consumption is the main source of greenhouse gas [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."
—Commissioner of the Environment and Sustainable Development: Julie Gelfand, February 2017

What is a subsidy? 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.

The extent of federal subsidies to the fossil fuel sector: Research by the International Institute for Sustainable Development (IISD)[1] indicates that the Government of Canada continues to provide approximately $1.6 billion subsidies to the oil and gas industry every year – nearly four times more than what is given to clean energy.[2]

Breakdown of major federal subsidies to the fossil fuel industry:		Avg. 2013-2015 (millions)
Tax Measures		
Canadian Development Expense	Tax deductions for development expense, including accelerated depreciation.[a]	$ 1,018
Canadian Exploration Expense	Tax deductions for exploration expense, including accelerated depreciation.[b]	$ 148
Other tax measures	Includes: Accelerated capital cost allowance (ACCA) for oil-sands projects[c] and Liquified natural gas assets (LNG)[d] **(NEW since 2009)** Canadian Oil & Gas Property Expense[e] **(NEW since 2009)** Duty exemption for offshore exploration equipment imports[f] Foreign resource expense and foreign exploration and development expense[g]	$ 347
Non-tax Measures		
Direct spending	Direct transfers and grants to oil and gas producers	$ 65
TOTAL[h]		**$1,578**

[a] Can claim up to 30% of expenses for drilling, converting, and completing an oil field, or sinking a mine shaft.

[b] Can claim 100% of exploration expenses. As the result of modification in Budget 2017, these expenses are now treated as part of the Canadian Development Expense.

[c] Oil sands eligibility for ACCA ended January 2015.

[d] Allows a 30% annual depreciation rate for equipment – compared to the normal 8%. LNG eligibility for ACCA **introduced in Budget 2015** with a designated end-date set for January 2025.

[e] Can claim 10% of the cost of obtaining oil and gas wells and rights. **Introduced in Budget 2011**.

[f] Provision to reduce oil and gas exploration expenses and facilitate exploration in the Atlantic and **Arctic**. Renewed for five years in 2009 and **became permanent in Budget 2014.**

[g] Can claim 30% of overseas exploration expenses.

[h] These figures **do not take into account** Canadian public finance provided to fossil fuels via the Export Development Corporation (approx. $2.5 billion annually), or through multilateral development banks (approx. $176 million annually).

(sources: IISD, Unpacking Canada's Fossil Fuel Subsidies, August 2016; ODI, G20 subsidies to oil, gas and coal production: Canada, 2015; Office of the Auditor General of Canada, Report 7—Fossil Fuel Subsidies, February 2017).

[1] International Institute for Sustainable Development, Unpacking Canada's Fossil Fuel Subsidies, August 2016. www.iisd.org/library/unpacking-canadas-fossil-fuel-subsidies

[2] Oil Change International, Friends of the Earth – U.S., Sierra Club, WWF European Policy Office, "Talk is Cheap: How G20 Governments are Financing Climate Disaster," July 2017. http://priceofoil.org/2017/07/05/g20-financing-climate-disaster/

The impacts of subsidizing the fossil fuel sector. The oil and gas sector is the largest single contributor to Canada's greenhouse gas (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 over pre-industrial levels.[3]

Beyond the impacts of climate change (see *Climate Change as a Matter of Faith and Justice*), fossil fuel production, transportation, and consumption have adverse effects on the health of Canadians and the natural environment, as pollution reduces air quality, contaminates land, and disrupts habitats. By subsidizing them, the government is promoting waste and detering investment in renewable energy.

As an alternative, research by the Green Economy Network indicates that "by investing up to 5 per cent of the annual federal budget in renewable energy, energy efficiency and public transportation over five years, Canada could create one million new jobs while reducing our annual GHG emissions by 25 to 35 per cent."

Additional challenges related to federal fossil fuel subsidies: The spring 2017 audit report prepared by the Commissioner of the Environment and Sustainable Development revealed three key problems:

1. The Department of Finance failed to cooperate in the audit of federal fossil fuel subsidies and provide the necessary data required to provide a full picture of the extent of subsidization, particularly as it related to the 2009 phase-out commitment.
2. This lack of transparency meant that Environment and Climate Change Canada had not yet been able to follow-through on initial plans related to subsidies as they themselves "did not yet know the extent of federal non-tax measures that could be inefficient fossil fuel subsidies."
3. The ministers of two departments, who were jointly mandated to fulfill Canada's 2009 G20 commitment, have not yet developed an implementation plan or timelines for action.

Reflecting on her audit, Environment Commissioner Julie Gelfand, concludes, "It is unclear how Canada will meet this international commitment by 2025 [to phase-out fossil fuel subsidies] without a clear roadmap to get there."

The call to end fossil fuel subsidies: We are not alone in calling on the Canadian government to end all subsidies to the fossil fuel industry. In December 2017, CPJ joined the International Institute for Sustainable Development, Environmental Defence, Oil Change International, Équiterre, the Climate Action Network Canada, and others to write a letter calling on Canada to take action on the fossil fuel subsidy phase-out. This echoes an April 2017 communiqué from the Vulnerable Twenty (V20)[4] Group of Ministers of Finance of the Climate Vulnerable Forum, that said, "We call for market-distorting fossil fuel production subsidies to be removed immediately and no later than 2020, and urge the G20 to set such a clear timeframe for fossil fuel subsidy elimination."

[3] http://priceofoil.org/2017/07/05/g20-financing-climate-disaster/

[4] The Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum is a dedicated cooperation initiative of economies systemically vulnerable to climate change. The V20 works through dialogue and action to tackle global climate change. V20 Members: Afghanistan, Bangladesh, Barbados, Bhutan, Burkina Faso, Cambodia, Comoros, Costa Rica, Democratic Republic of the Congo, Dominican Republic, Ethiopia, Fiji, Ghana, Grenada, Guatemala, Haïti, Honduras, Kenya, Kiribati, Madagascar, Malawi, Maldives, Marshall Islands, Mongolia, Morocco, Nepal, Niger, Palau, Papua New Guinea, Philippines, Rwanda, Saint Lucia, Senegal, South Sudan, Sri Lanka, Sudan, Tanzania, Timor-Leste, Tunisia, Tuvalu, Vanuatu, Viet Nam and Yemen. www.v-20.org/about/

A complete suite of Canadian federal measures to address climate change: Putting an end to fossil fuel subsidies is key to addressing climate change. Additional measures are also required. These include:

1. **Continue to increase Canada's carbon price beyond 2022 so it reaches *at least* $160/tonne by 2030** (which would raise gasoline prices by about 40 cents per litre).
2. **Respect the autonomy of Indigenous peoples, including when making decisions about energy projects.**
3. **Acknowledge that new fossil fuel infrastructure (e.g. pipelines) is incompatible with the Paris temperature goals.**
4. **Provide retraining for current and laid-off energy workers to retool to work in renewable energy.**
5. **Increase Canada's international climate financing for developing countries to a fair-share contribution of $4 billion each year by 2020, as promised.**

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