PUTTING OUR MONEY WHERE OUR MOUTH IS: CLIMATE CHANGE AND PUBLIC FINANCE IN CANADA

February 2019

"The climate crisis has already been solved. We already have all the facts and solutions. All we need to do is to wake up and change."
—Greta Thunberg, 16-yr-old Swedish climate activist

In December 2015, world leaders – informed by the international scientific community – signed the historic Paris Agreement.[1] 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).

Support for the Paris Agreement translated into some action. But Canadian emissions remain stagnant. And current federal policies don't align with the Paris Agreement's temperature goals.

Three years after Paris, the UN Intergovernmental Panel on Climate Change (IPCC) reported on the implications of allowing global temperatures to rise 1.5 C over pre-industrial levels.[2] Their research shows that the global community has less than 12 years to dramatically change course and avoid serious climate consequences. Specifically, "limiting global warming to 1.5 C … require[s] rapid and far-reaching transitions in energy, land, urban and infrastructure, and industrial systems… [and] can only be achieved if global C02 emissions start to decline well before 2030."

We've already hit an average global temperature increase of 1 C, and are experiencing more intense storms, species loss, and rising seas as a result. "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."

It is in this context – and with a commitment to reduce Canadian emissions to 30 per cent below 2005 levels by 2030 – that the federal government continues to provide significant funding to the fossil fuel industry.

At the G20 summit in 2009, Canada joined world leaders in pledging to phase out inefficient fossil fuel subsidies over the medium term. In 2015, the commitment was included in the UN Sustainable Development Goals and the 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.[3]

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.

[1] United Nations Framework Convention on Climate Change. The Paris Agreement, 2015. http://unfccc.int/paris_agreement/items/9485.php

[2] Intergovernmental Panel on Climate Change. Special Report: Global Warming of 1.5 °C, October 2018. https://www.ipcc.ch/sr15/

[3] By qualifying their commitment with the word "inefficient," global leaders afford themselves some leeway by seemingly referring only to visible financial subsidies that are understood to distort markets.

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 this funding, 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.

In order to avert catastrophic climate change, Canada needs to increase ambition and align our climate *and energy* policies with our international climate commitments – and climate science.

Give it up for the Earth! is calling on the Canadian federal government to end public financing of the fossil fuel sector.

The savings should be strategically invested in renewable energy, energy efficiency, and skills development. Canada's future must be built on clean energy. We ask that the federal government implement a just transition that will reduce emissions, create good jobs, and support communities.

> *"While fossil fuels play an 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."*
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> —Commissioner of the Environment and Sustainable Development: Julie Gelfand, February 2017

Federal funding of the fossil fuel sector. Estimates of Canadian subsidies vary widely, in part due to the lack of transparency on the part of the Ministry of Finance.[4] Calculations based on research by the International Institute for Sustainable Development (IISD)[5] put the federal estimate at approximately $1.6 billion annually in funding to the oil and gas industry between 2013-2015 (see appendix). A 2018 report published by IISD, Oil Change International, Équiterre, Environmental Defence, and Climate Action Network Canada in 2018 indicates that this figure has dropped, not because subsidies have been eliminated, but rather due to fluctuations in oil prices and the option for companies to delay claims in anticipation of greater future benefits. During the same period, however, the oil and gas sector received three key boosts from the federal government: $4.5 billion paid to Kinder Morgan Inc. for the Trans Mountain pipeline project; an exemption for an average of 80 per cent of oil and gas sector emissions from the federal carbon price;[6] and new business deductions available for oil and gas via the Accelerated Investment Incentive.[7] [8]

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[4] Auditor General of Canada, 2017 Spring Reports of the Auditor General of Canada to the Parliament of Canada: Report 7—Fossil Fuel Subsidies, May 2017. http://www.oag-bvg.gc.ca/internet/English/parl_oag_201705_07_e_42229.html#

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

[6] Government of Canada. "Update on the output-based pricing system: technical backgrounder," 2018 https://www.canada.ca/en/services/environment/weather/climatechange/climate-action/pricing-carbon-pollution/output-based-pricing-system-technicalbackgrounder.html

[7] Government of Canada. Budget 2018: Annex 3 - Accelerating Business Investment, 2018. https://www.budget.gc.ca/fes-eea/2018/docs/statement-enonce/anx03-en.html

[8] The most staggering figure comes from a 2015 International Monetary Fund study which puts the figure at US$46 billion (combined federal and provincial supports), and factors in tax exemptions and externalized costs in addition to direct financial inputs. International Monetary Fund. IMF Survey: Counting the Cost of Energy Subsidies, July 2015. https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew070215a

The impacts of funding 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[9] 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.

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 funding them, the government is promoting waste and deterring investment in renewable energy – even as the cleaner options become less expensive.

What is more, oil and gas projects – especially infrastructure – are designed for the long-term. With continued public financing we therefore risk either locking-in a high carbon economic model or bearing the weight of significant stranded assets (and financial losses).

A better alternative: towards a just transition. In a just transition, the weight of change is not borne disproportionately by one group of people. It includes significant investment in low-carbon energy development, as well as funding for skills development and retraining for workers. It also incorporates a robust Employment Insurance program to assist those who find themselves temporarily out of work. A just transition gives protection to the most vulnerable and leads to increased social justice for all.

Research by the Green Economy Network[10] 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."

Just Transition: The burden of change that benefits everyone will not be placed disproportionately on a few. Those most vulnerable to change will be protected. The process of change will increase social justice for workers, women, the poor, and all oppressed groups. (International Trade Union Confederation-ITUC)

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)[11] 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." Immediately following our 2018 **Give it up for the Earth!** campaign (which also focused on ending fossil fuel subsidies), we responded to the KAIROS spring action and wrote a letter to Finance Minister Bill Morneau, asking that Canada announce at the June 2018 G7 meeting its plans for fully phasing out fossil fuel subsidies by 2025.

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[9] 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/

[10] Green Economy Network. One Million Climate Jobs, 2015. http://greeneconomynet.ca/

[11] 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/

Colleagues in many sectors – environmental, faith-based, labour, and academic – have all urged the government to stop giving public money to fossil fuel companies.

A complete suite of Canadian federal measures needed to address climate change. Putting an end to the public financing of fossil fuel is key to addressing climate change, but it is only one piece.

The federal government must follow-through on commitments and, at the very least, implement measures that will enable us to meet Canada's goal of reducing emissions 30 per cent of 2005 levels by 2030. Then, it must increase national ambition to a level consistent with no more than 1.5 C over pre-industrial levels.

At the heart of a good way forward is respect for the the autonomy of Indigenous peoples, including when making decisions about energy. In order to reach this new target, the Government of Canada must invest in a just transition towards a decarbonized economy; continue to increase the national carbon price beyond 2022 so it reaches *at least* $160/tonne by 2030 (which would raise gasoline prices by about 40 cents per litre); and, increase Canada's international climate financing for developing countries to a fair-share contribution of $4 billion each year by 2020, as promised.

APPENDIX

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).

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