

DOUBLING DOWN WITH TAX PAYER DOLLARS

Fossil Fuel Subsidies from the Alberta Government

EXECUTIVE SUMMARY

February 2019



environmental
defence

In the last three fiscal years, the government of Alberta has provided \$4.8 billion in subsidies to the oil, gas and coal industries through a series of tax incentives, royalty holidays, research grants and direct subsidies. Although Alberta's Climate Leadership Plan (CLP) includes phasing out coal electricity, increasing renewable electricity, funding energy efficiency and placing a cap on oil sands emissions, these subsidies work directly against the goals of the CLP by enticing fossil fuel companies to expand their operations.

In Alberta, oil, gas and coal subsidies totalled billions of dollars in provincial supports over the last three fiscal years, including at least:

\$1.2 BILLION IN FY 2015/16
\$1.6 BILLION IN FY 2016/17
\$2 BILLION IN FY 2017/18

Oil and gas projects have high up-front capital costs and long payback periods, meaning that when these projects are built, their owners have an expectation of decades long operation. This has the possibility of locking in Alberta's greenhouse gas (GHG) pollution for a generation or more. **Alberta's oil and gas industry already accounts for 26 per cent of Canada's GHG pollution (182.7 million tonnes).**¹ As the rest of the country works to lower their pollution, Alberta's is set to grow. While some subsidies are intended to improve environmental performance, such as research grants for innovation to reduce water use and lower carbon intensity in the oil sands, the expansion of these industries through subsidies that make them economically viable will ensure that Alberta is unable to meet its emission reduction targets.

Canada has pledged to eliminate all inefficient subsidies to the fossil fuel sector by 2025,² yet some of the current subsidies in Alberta are set to run until 2026. As the largest provincial GHG emitter in Canada, **Alberta should release a public accounting of provincial fossil fuel subsidies as soon as possible and develop a roadmap for the phase-out of these subsidies in the 2019 provincial budget.**

Furthermore, Canada has created the Pan Canada Framework on Clean Growth and Climate Change (PCF) to reduce Canada's total emissions by 30 per cent below 2005 levels by 2030.

The Alberta emissions cap allows for GHG emission growth in the oil sands by nearly 40 per cent, or 28 million tonnes.³ Emissions from electricity cogeneration and upgrading in the oil sands will add to that total. It is unclear how Canada can achieve its goals while allowing the oil sands production and emissions to grow.

There are several types of subsidies that the Alberta government has extended to the fossil fuel industry, ranging from tens of millions of dollars to over a billion dollars. These subsidies take the form of tax incentives, royalty credits, research grants and direct subsidies.

The “Legacy” royalty adjustment programs were designed to address unique costs associated with specific types of oil and gas development. By reducing royalties owed from specific types of oil and gas development and production, companies were incentivized to either develop new reserves or to prolong existing, less profitable production. These programs largely benefit natural gas deep drilling, shale gas and horizontal oil. **Over the last three fiscal years, royalty payments were reduced by an average of \$1.16 billion each year. In FY 2017/18 the province of Alberta collected just \$2.37 billion in royalties, but could have collected an additional \$1.46 billion if not for the royalty adjustment program.**

In 2016, the Alberta government undertook a process to review and modernize its royalty framework across all fossil fuels through the Modernized Royalty Framework (MRF). The MRF is applied to any new well drilled after December 31, 2016.⁴ Two new royalty programs were introduced in 2016 as a result of the MRF to promote expanded production: the Enhanced Hydrocarbon Recovery Program and the Emerging Resources Program. **While royalty adjustments for future years through these programs are not yet quantifiable, the Alberta government has committed to \$1 billion in royalty credits to date.**⁵

Various tax exemptions, largely on fuel use, resulted in a subsidy of \$284.5 million in the 2018-19 fiscal year. On the production side, federal tax measures, such as the Canadian Exploration Expense (CEE) and the Canadian Development Expense (CDE), results in foregone revenue for the Alberta government. These tax measures allow oil and gas companies to deduct expenses incurred from exploring for more oil and gas or developing a new oil and gas project. It is not possible to quantify these deductions on an annual basis, because companies are allowed to accumulate these expenses in “pools” for as long as the companies want.

Carbon capture and sequestration (CCS) initiatives received a direct subsidy of \$272 million in fiscal year 2018-19.⁶ However, CCS is not yet cost effective even with the subsidies provided.

Research grants through Alberta Innovates totaled \$9.6 million for research into freshwater use and lowering energy intensity. As well, Emissions Reduction Alberta gave \$110.6 million in 2017-18 to oil companies for research on new technology to reduce emissions and water use in oil and gas production. Research and innovation grants can have environmental benefits.

In June 2018, the Alberta government passed the Energy Diversification Act,⁷ which has committed to spending \$2.1 billion through royalty credits, loans and grants through several programs, with the goal of having more upgrading done

within the province. Despite the name, investing more public dollars into the fossil fuel industry is not energy diversification.

The Northwest Redwater Sturgeon Refinery is a joint venture by the Alberta Petroleum Marketing Commission (APMC), which is a crown corporation, and Canadian Natural Resources Limited (CNRL). **APMC has borrowed \$432 million from the Alberta government and is expected to borrow a total of \$3.7 billion by 2022/23 to support this project.**⁸ Without this direct government support it is unlikely that CNRL would have built this refinery.

As part of Alberta's CLP, the government of Alberta will pay coal generation stations nearly \$100 million per year from 2017 until 2030 to phase-out coal use in electricity generation.⁹ There are other types of programs that should be considered instead of subsidies to oil and gas companies. **For example, Alberta is also providing funding to assist municipalities affected by the coal phase-out through the Coal Community Transition Fund, which includes up to \$50 million for community renewable energy projects.**¹⁰ An expanded program could support other communities as Alberta transitions away from all fossil fuels.

In December 2017, the Oil Sands Innovation Fund was announced which will see \$440 million¹¹ in carbon tax revenue paid out to oil sands companies to increase production and reduce emissions. However, these goals are at odds with each other as increasing production will increase GHG emissions. This funding will continue until 2025, but the Alberta government must enhance the transparency and demonstrate why public money should be used to perpetuate oil and gas production rather than investing in climate solutions.

The Methane Emissions Reduction Program will see oil and gas facilities that produce 40,000 barrels of oil per day or less receive up to \$250,000 per year,¹² per facility to reduce their methane emissions. Subsidies to reduce methane emissions are particularly questionable considering recent findings that many of these reductions can be achieved at no net cost. Other reductions can be made at a cost below \$10/tonne, well below the Alberta carbon price.

Finally, there are several projects recently undertaken by the province of Alberta that are either fossil fuel subsidies, such as the announcement to purchase of 7,000 oil rail cars and 80 locomotives,¹³ or potential subsidies such as a \$2 billion financial backstop for the Trans Mountain pipeline Expansion.¹⁴ On top of all of these financial subsidies and benefits, there is a massive environmental liability from decades of oil and gas production that some estimates have as high as \$260 billion.¹⁵

Both the Alberta and Canadian governments need to wind down the subsidies they provide directly or indirectly to the oil and gas industry, and plan for a transition away from the fossil fuel sector entirely. They must accept the realities of a carbon constrained world or risk significant stranded assets. Alberta should release a full accounting of its fossil fuel subsidies and release in Budget 2019 a roadmap for the phase-out of these subsidies.

¹ Pembina Institute. (2018). Three takeaways from Canada's latest greenhouse gas emissions data. Retrieved from <http://www.pembina.org/blog/three-takeaways-canadas-latest-greenhouse-gas-emissions-data>.

² The Government of Canada has not defined what is meant by "inefficient" fossil fuel subsidies. Environmental Defence Canada and the International Institute for Sustainable Development have

recommended that Canada and partner countries provide a definition of “inefficient” as part of a transparent roadmap to phasing out fossil fuel subsidies by 2025. See #StopFundingFossils Coalition. (2018). Statement on Canada’s Commitment to enter into a peer review of its fossil fuel subsidies. Retrieved from <https://environmentaldefence.ca/2018/06/14/statement-canadas-commitment-enter-peer-review-fossil-fuel-subsidies/>.

³ Government of Canada. (2018). National Inventory Report 1990–2016: Greenhouse Gas Sources and Sinks in Canada (NIR). Table 2-12. Retrieved from <https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/greenhouse-gas-emissions.html>

⁴ <https://www.mccarthy.ca/en/insights/articles/modernized-royalty-framework-addressing-competitive-realities-and-opportunities-alberta>.

⁵ Government of Alberta. (2018). Petrochemicals Diversification Program. Retrieved from <https://www.alberta.ca/petrochemicals-diversification-program.aspx>.

⁶ Alberta’s annual Fiscal Plan provides an estimate of expenditures related to the province’s Carbon Capture and Storage Initiative. Over the years, the Fiscal Plan’s appropriations roughly match the provincial funding disclosed as revenues by the two CCS projects being developed in Alberta. It was thus that the first line of the table (in bold) is the overarching estimates from government, and that the line items below were an actual representation of the funds disbursed by government. See Government of Alberta. (2015). Budget 2015: Supporting Jobs, Supporting Families. The Alberta Way: Fiscal Plan. Retrieved from <https://finance.alberta.ca/publications/Budget/budget2015-october/fiscal-plan-complete.pdf>; Government of Alberta. (2016). Fiscal Plan: The Alberta Jobs Plan; Government of Alberta. (2017). Budget 2017: Working to Make Life Better: Fiscal Plan; Government of Alberta. (2018). Fiscal Plan: Budget 2018: A recovery built to last; Shell Canada Energy. (2017). Quest Carbon Capture and Storage Project: Annual Summary Report – Alberta Department of Energy: 2016. Retrieved from <https://www.energy.alberta.ca/AU/CCS/KnowledgeSP/Documents/2016/CCSQuestReport2016.pdf>; North West Redwater Partnership. (2017). Enhance Energy Inc. and North West Redwater Partnership: Knowledge Sharing Report. Retrieved from <https://www.energy.alberta.ca/AU/CCS/KnowledgeSP/Documents/2016/CCSACTLReport2016.pdf>.

⁷ Government of Alberta. (2018). Energy diversification programs. Retrieved from <https://www.alberta.ca/energy-diversification-act.aspx>.

⁸ Brian Livingston. (2018). The North West Redwater Sturgeon Refinery: What are the numbers for Alberta’s investment? *University of Calgary School of Public Policy Publications*. Retrieved from <https://www.policyschool.ca/wp-content/uploads/2018/06/NWR-Strugeon-Refinery-Livingston-FINAL-VERSION1.pdf>.

⁹ Government of Alberta. (2018). Phasing out coal pollution. Retrieved from <https://www.alberta.ca/climate-coal-electricity.aspx>.

¹⁰ Government of Alberta. (2018). Putting power in the hands of communities. Retrieved from <https://www.alberta.ca/release.cfm?xID=620855BF8D8B3-9B90-88C9-FD9330F8A9406D44>.

¹¹ Government of Alberta. (2017). Major funding for diversified, low-carbon economy. Retrieved from <https://www.alberta.ca/release.cfm?xID=5110991022019-FCE5-7A2E-5B3B7020CB44F8B3>.

¹² Government of Alberta. (2018). Helping industries reduce methane emissions. Retrieved from <https://www.alberta.ca/release.cfm?xID=60883B92A5409-A76A-079F-B447C65148217B9E>.

¹³ Government of Alberta. (2018). Premier fighting for more value from Alberta oil. Retrieved from <https://www.alberta.ca/release.cfm?xID=621219274B4EB-DED2-A223-DFAB9D9D8A6BD355>.

¹⁴ Shawn McCarthy and Kelly Cryderman. (2018). Bankers bullish on Trans Mountain despite uncertainties. *Globe and Mail*. Retrieved from <https://www.theglobeandmail.com/canada/article-bankers-bullish-on-trans-mountain-despite-forecast-that-costs-could/?cmpid=rss>

¹⁵ Emma McIntosh, David Bruser, Mike de Souza, and Carolyn Jarvis. (2018). What would it cost to clean up Alberta’s oilpatch? \$260 billion, a top official warns. *Toronto Star*. Retrieved from <https://www.thestar.com/news/investigations/2018/11/01/what-would-it-cost-to-clean-up-albertas-oilpatch-260-billion-a-top-official-warns.html>.