PAYING POLLUTERS:

Federal Financial Support to Oil and Gas in 2020

April 2021

Totalling up federal support

The Government of Canada claims to be a climate leader and has committed to phasing out fossil fuel subsidies. Despite these promises, the government continues to prop up the very companies most responsible for the climate crisis with huge sums of public money, behaviour that is incompatible with ensuring a safe and healthy future.

Oil and gas companies are multi-billion dollar businesses, yet every year fossil fuel companies get billions in tax breaks, direct spending and public financing. These are irresponsible government handouts to support an industry whose growth is incompatible with Canada's climate targets.

In 2020, the federal government either announced or provided a minimum of nearly $18 billion to the oil and gas sector. This includes $3.28 billion in direct subsidy programs and $13.47 billion in public financing funneled to oil and gas companies primarily through a non-transparent crown corporation, Export Development Canada. See the full list of subsidies in the Appendix. This includes both regular financial support as well as COVID-specific support. In contrast, the Government's new climate plan commits $15 billion to climate initiatives - spread over ten years.[1]

An additional 15.35 billion has been announced in programs, including as part of the new climate plan, that could result in substantial fossil fuel subsidies if funds are directed to the fossil fuel sector without robust green strings.[2]

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Due to a lack of transparency and public reporting, quantifying yearly financial support provided to the oil and gas sector by the Government of Canada and its agencies remains a difficult task. Federal tax deductions are not disclosed. There is no comprehensive inventory of direct spending by the government. As a result, the numbers included here are certainly an underestimate of total support.

This report does not look at the significant subsidies from provincial governments to oil and gas companies.[3,4,5]

Externalities - a note

The scope of this report also does not include externalities like the healthcare costs from the impacts of fossil fuels, the cost of pollution clean up and mitigation and more. Though it was not possible to include all of these costs in this report, it is important to note the full cost of fossil fuels goes far beyond government support to companies. A 2015 report by the International Monetary Fund found that, when externalities are included, Canada provided $63 billion to the oil and gas sector that year.[6] Cleaning up Alberta's oil patch - including the 90,000 abandoned oil wells, toxic tailing ponds and ageing pipelines - could cost up to $260 billion.[7] According to the Canadian Medical Association, the burning of fossil fuels is responsible for $53.5 billion in health-related costs each year in Canada.[8]

$63 B

$260 B

$53.5 B

Why we shouldn't subsidize oil and gas

Subsidies are a common public policy tool that governments employ to support a specific economic sector or to achieve a desired social outcome. There are numerous circumstances that justify the use of subsidies. For example: a subsidy might ensure a social good is produced and fairly distributed to all, like education. Or it could support new and emerging sectors that are in line with government priorities, like renewable energy. In this case, the subsidy corrects against the fact that impacts of pollution are not fairly accounted for by the market and it helps new industries overcome the incumbent advantage held by fossil fuels.

Government spending should not go towards lending a significant helping hand to companies intent on driving us toward disaster. Including Canada, countries around the world are planning to produce more than twice the amount of fossil fuels than would be consistent with a 1.5°C temperature limit.[9] On the one hand, the government of Canada is setting climate targets and plans, but on the other, continues to subsidize the very companies and activities that contribute most to the problem.

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Subsidies and public financing to oil and gas companies:

HARM OUR HEALTH. Governments are propping up an industry that is killing us. A recent report found that one in five premature deaths is caused by air pollution from burning fossil fuels. In Canada, that's 36,000 people a year.

CONTRIBUTE TO CLIMATE CHANGE. By making it cheaper to find, extract, process, transport and export fossil fuels, subsidies encourage more fossil fuel production, increasing the risk of locking in greenhouse gas emissions for decades to come.

DIVERT RESOURCES FROM PUBLIC GOODS TO PRIVATE HANDS. Public financial support for fossil fuels redirects vital government resources away from other priorities that benefit all of us, such as healthcare, clean energy and just transition.

YIELD VERY LITTLE IN TERMS OF JOB CREATION. Fossil fuel industries create fewer jobs per unit of output than any other sector in the Canadian economy.[10] Compared to funding for fossil fuels, clean stimulus creates nearly three times as many jobs for equivalent investments.[11]

DISTORT THE ENERGY MARKET. Subsidies distort markets, favouring oil and gas over renewable energy. In doing so, they increase the market failure caused by underpricing pollution and climate impacts.

It is irresponsible for governments to be providing financial support to an industry that we need to be winding down in order to avoid catastrophic levels of warming.

In the wake of COVID-19, calls from international leaders, such as the Executive Director of the International Energy Agency and the Secretary-General of the UN have urged countries to remove fossil fuel subsidies and supports, including public finance.

What does Canada subsidize?

Fossil fuel subsidies at the federal level are largely directed to fossil fuel producers, as opposed to consumers.

Canada's support to oil and gas companies ranges from:

- providing companies with funds to do research into new technology to lower their costs of doing business
- paying for infrastructure such as natural gas refueling stations
- maintaining idled infrastructure
- as well as providing companies with access to credit, loan guarantees and tax breaks.

Allowing oil and gas companies to access unique government financing or to leave their mess behind without paying for cleanup is just as helpful to a company's bottom line and incentivizing production as a direct payment or tax incentive.

COVID-19

The COVID-19 crisis has put the livelihoods of millions in Canada at risk, and the federal government rightfully responded by creating various business support programs. The response to COVID-19 requires unprecedented support for workers in industries such as the oil and gas sector, but this support should neither introduce nor entrench subsidies that hinder our urgently needed transition away from fossil fuels.

Many of the programs established in 2020 were at the request of the oil and gas industry. For example, in April 2020, the Canadian Association of Petroleum Producers, the largest oil lobby group in Canada, sent a letter to Cabinet[12] asking for a host of measures including: increased access to credit delivered through Export Development Canada and funding to reduce environmental liabilities. Both of these requests were accommodated.

CLEANING UP INDUSTRY'S MESS

A significant portion of the support in 2020 was provided under a guise of job creation and achieving environmental outcomes. Rather than adopting a polluter pays' approach which forces those who cause the damage to bear these costs, these subsidies put taxpayers on the hook to clean up industry's mess. Even when environmental outcomes are attached to subsidies, subsidies often fail to achieve their stated objectives. And there is no process for reviewing these subsidies or for determining whether they are the most effective or affordable way of achieving an environmental outcome.

For example, the federal government invested $1 billion into cleaning up inactive oil and gas wells in Alberta. Inactive wells are owned by active companies who have neglected to pay the clean-up costs of their operations for decades, despite provincial laws in Alberta obligating companies to pay these costs. Not only is passing these private costs onto the public the wrong approach to fixing a problem that should be fixed by the industry, this program has not come close to achieving its intended function: job creation.

Rather than spending the funds on more reclamation work, the major oil companies that undertake the bulk of the work are simply replacing their own spending with federal funding. Companies put their own remediation programs on hold while they waited for the government to pay for their clean up costs. As a result, **the promised job creation has not materialized and instead public dollars are replacing the funds that should be allocated by private companies.**[13] No new reclamation work appears to be underway, and as a result, no additional workers are receiving the benefits of this program.

The government also announced a $750 million program to reduce greenhouse gas emissions in the oil and gas sector, especially methane. These same outcomes could be reached – with no public cost – by putting regulations in place to force companies to invest their own funds into solutions. By taking on the cost of reducing emissions, we are not holding industry accountable and the cost of doing business is lowered.

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The projected total cost of the controversial Trans Mountain pipeline expansion project has skyrocketed to over $16 billion.

PIPELINES

Federal government agencies have played a key role in financing the construction of pipelines that have huge carbon footprints, violate Indigenous rights and put ecosystems at risk. These pipelines would allow for the expansion of oil and fracked gas, at the very time when we need to be transitioning away from the production of fossil fuels. These are clear examples of the government's willingness to prop up the oil and gas sector despite knowing that these projects are incompatible with Canada's international climate obligations. Furthermore, both of these pipelines face the very real possibility of becoming stranded assets as global demand for oil and gas continues to fall.

Trans Mountain Expansion Pipeline

In 2018, the government paid Kinder Morgan $4.5 billion to buy Trans Mountain. The projected cost to complete the controversial Trans Mountain pipeline expansion has skyrocketed to C$12.6 billion, driving the total price tag above $16 billion when the expense of buying the project on taxpayers' behalf is taken into account.[14] The buyout has been financed through Export Development Canada (see below).

The disastrous climate implications of the project have been clear all along, but federal government agencies are now finding that the economic rationale behind the pipeline is quickly evaporating. Even without ramped-up climate action and with the recent cancellation of the Keystone XL pipeline, the Canadian Energy Regulator concluded that Canada's oil exports can be met with existing capacity, so there is no reason for any additional pipelines - including the Trans Mountain Expansion pipeline.[15] The Parliamentary Budget Office found that even modest new climate policies, in line with what governments have already committed to, would result in the pipeline becoming a money-loser.[16]

Coastal GasLink Pipeline

In 2020, Export Development Canada approved a loan of up to $500 million for TC Energy's Coastal GasLink pipeline. The pipeline is intended to transport fracked gas from northeastern BC to the LNG Canada export facility on the coast. The pipeline is opposed by the Hereditary Chiefs of the Wet'suwet'en Nation, whose territory the pipeline crosses. Wet'suwet'en hereditary chiefs have been clear that their actions are in defence of their lands and waters as well as the climate and have shown how pipelines on their lands will threaten their traplines, animals in the region, and the pristine Morice River, which is an important source of fresh drinking water and salmon.[17] The continued construction despite this opposition violates the rights and legal authority of the Wet'suwet'en to protect their traditional territories from the construction of unwanted fossil fuel infrastructure.

POLICING

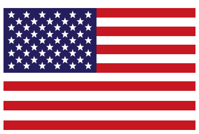
A particularly egregious form of fossil fuel subsidy are investments made into policing Indigenous land defenders opposing fossil fuel infrastructure. For example, over $13 million was spent last year on the Royal Canadian Mounted Police to 'protect' the Coastal GasLink pipeline - which took the form of harassing Wet'suwet'en Nation community members who oppose the pipeline.[18]

Canada has made commitments to reconciliation with Indigenous Peoples and has agreed to uphold the UN Declaration on the Rights of Indigenous Peoples (UNDRIP). Criminalizing peaceful land defenders is in contradiction with these commitments. In January 2020, the UN Committee on the Elimination of Racial Discrimination called upon Canada to halt construction of the Coastal GasLink pipeline until the Wet'suwet'en people grant free, prior and informed consent to the project, and to cease the forced evition of land defenders.[19]

International Laggard

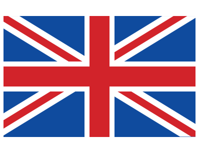
Between 2016 and 2018, Canada provided more public finance for fossil fuels than any G20 country other than China – and the most on a per capita basis.[20] A recent scorecard ranked Canada last in progress on phasing out support for oil and gas among G20 OECD countries.[21]

On the other hand, momentum to end public finance of fossil fuels among Canada's peers and major trade partners is snowballing.



In the **United States**, President Biden has made eliminating fossil fuels subsidies and public finance a priority. He has directed all federal agencies to identify any direct federal spending on fossil fuels, and to eliminate any such spending from the budget next year. Furthermore, President Biden instructed relevant departments and agencies to end international public finance for fossil fuels, including export finance provided by Export-Import (EXIM) Bank.[22] As part of President Biden's commitments to center environmental justice, his government has promised to target relevant climate investments with the goal of delivering 40% of the overall benefits from those investments to disadvantaged communities.

European Union foreign ministers committed to prioritize ending fossil fuel finance in diplomatic efforts, and called for a global phase-out of harmful subsidies on a clear timeline.



The **United Kingdom** committed to phase out all financing for overseas oil and gas projects, including export finance provided by UK Export Finance (UKEF).[23] Over the past four years the U.K. has supported $35 billion dollars of British oil and gas exports through trade promotion and export finance.

Export Development Canada

Canada's export credit agency, Export Development Canada (EDC) provides on average nearly fourteen billion dollars in support to domestic and international oil and gas companies each year.[24]

This support is make-or-break for some fossil fuel businesses and large oil and gas projects. By assuming lending and insurance risk, EDC provides substantial commercial and competitive advantage for domestic fossil fuel producers.[25]

As a government agency, it is ultimately Canadian taxpayers who bear EDC's risks and liabilities. The lack of transparency when EDC writes off loans is a significant issue.[26]

EDC's support for fossil fuels significantly outpaces its support for cleaner options. For example, EDC provided at least seven times more support for oil and gas than what they report for "cleantech" from 2016 to 2019.[27]

EDC's support to oil and gas includes support for projects that have been criticized for violating human rights at home and abroad, including the right of affected communities to free, prior and informed consent. For instance, as mentioned above, in 2020 EDC approved a loan of up to $500 million for the Coastal GasLink Pipeline in British Columbia, a project opposed by hereditary leaders from all five clans of the Wet'suwet'en Nation.[28]

Recommendations

Canada first announced its commitment to phase out fossil fuel subsidies in 2009. Despite this long standing commitment, Canada has still not announced a clear path towards achieving this promise.

The next few years are a critical window for Canada to act meaningfully and swiftly on climate change. As the government continues to provide unprecedented amounts of recovery funds in response to COVID-19, it is vital that public spending does not waste public resources or create opportunity costs that slow down the transition to an economy with net-zero emissions. The Government of Canada should:

1. **Demonstrate transparency** by releasing information on quantified amounts of all federal fossil fuel subsidies, public finance and support on an annual basis.
2. **Develop and publish a roadmap** to achieve Canada's commitment to phase out inefficient fossil fuel subsidies before 2025, and shift these investments and public finance towards supporting a path to resilient, equitable zero-carbon societies.
3. **Attach strict conditions** and principles to government programs to align all government spending with the urgent need for climate action, including by ensuring that programs uphold the polluter pays principle.
4. **Phase out all domestic and overseas public finance** for fossil fuels, including finance provided by Export Development Canada.
5. **Work with the provinces and territories** to address fossil fuel subsidies at the sub-national level.

This is a critical time for Canada and the world. How governments choose to respond to the COVID-19 crisis will either amplify or help mitigate global threats such as the climate emergency and growing inequality and will determine whether the worst impacts can be avoided. Financial stimulus is critically needed, but it must be invested wisely and fairly in ways that accelerate Canada's urgently needed transition to a resilient, prosperous, low-carbon country.

Short-term solutions that serve to prop up a declining industry will only increase emissions and further degrade nature and social stability at a time when the world is rapidly trying to decarbonize. The pathway to zero emissions and a climate-safe future does not include subsidies or public financing for the oil and gas industry.

Appendix: Breaking Down the Numbers

Direct spending announced or distributed in 2020 to the fossil fuel industry

Likely incomplete as most of these programs lack transparency and no database of projects funded is available.

PROGRAM	AMOUNT	FOR WHAT
Canadian Emissions Reduction Innovation Network	$6 million	The program supports targeted infrastructure investments at existing facilities or sites and aims to accelerate the development, validation and deployment of technologies that reduce oil and gas sector emissions.
Canada Emergency Wage Subsidy (COVID support program)	~$300 million	The total amount of the federal wage subsidy claimed by oil and gas companies remains unknown, as the federal government has provided no transparency on the recipients. Imperial Oil alone claimed $120 million (while issuing $320 million in dividends).[29] In June 2020, CAPP estimated the total at $300 million.[30]
Clean Growth Program	$1.6 million	The Clean Growth Program supports clean technology research and development and demonstration projects in three Canadian sectors: oil and gas, mining and forestry. In past years, much of this support has targeted the oil and gas sector.
Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative	$8 million	The funds listed here went to natural gas refuelling stations, rather than electric vehicle infrastructure. Over the past two years, the amount dedicated to natural gas was $19.5 million.
Emissions Reduction Fund (COVID support program)	$750 million	This funding provides up to $675 million to eligible onshore oil and gas companies and $75 million to offshore oil and gas companies. The purpose is to reduce methane and other emissions. Funds will be provided over two years. This fund includes both repayable funding and grants, and it is not yet clear what the final breakdown will be.
Energy Innovation Program	$2.75 million	Funding streams under this program support the development of "clean" oil and gas technologies.
Indigenous Natural Resource Partnerships	$6 million	Efforts to increase Indigenous economic participation in oil and gas-related infrastructure projects in Alberta and BC.
Indigenous Services Canada	$2.37 million	Funding for a diesel generating station in Nibinamik First Nation.
National Trade Corridors Fund	$20 million	This program provides financial support for infrastructure projects that improve the performance of Canadian transportation systems, increase Canadian exports and enhance overseas trade. The fund is $2.3 billion over 11 years. Some of this funding has targeted improvements to moving oil and gas products to export markets, but the exact amount of those funds is unknown. For example, the funds listed here went to projects that increase the efficiency of shipping from the Alberta Industrial Heartland.[31]

Oil and Gas Industry Recovery Assistance Fund (COVID support program)	$320 million	Support for Newfoundland & Labrador's offshore oil industry.
Reclamation of orphan and inactive wells (COVID support program)	$1.7 billion	Funding for provinces to pay for the closure and reclamation of orphan and inactive wells.
RCMP	$13 million	The cost of policing the Coastal GasLink pipeline conflict in northern B.C. between January 2019 and March 2020.[32] The cost of policing other fossil fuel infrastructure projects is unknown.
Strategic Innovation Fund	$100 million over four years	These funds are for the Clean Resource Innovation Network (CRIN) to commercialize clean technology for the oil and gas sector, to help the oil and gas sector grow, create jobs and reduce its greenhouse gas emissions.
Sustainable Development Technology Canada	$26.7 million	Supporting Canadian companies who are leading in the development of clean technologies. The funds here went to projects in the oil and gas sector. This program has contributed $50 million to the oil and sector between 2011-2019.
TOTAL:	**3.26 billion**	

Programs announced in 2020 that without green strings, may result in significant subsidies

PROGRAM	AMOUNT	FOR WHAT
Bank of Canada corporate bond purchase program (COVID support program)	$10 billion	To support the flow of credit for corporate issuers in Canada, the Bank of Canada launched a one year, $10 billion Corporate Bond Purchasing Program (CBPP). The CBPP will purchase eligible corporate bonds in the secondary market from a list of eligible sectors and large Canadian companies. The list includes 15 fossil fuel companies.[33]
Low Carbon Economy Fund	$100 million	Support low-carbon initiatives in Alberta, including but not limited to clean technology and industry. Previous allocations under this fund have been provided to fossil fuel producers.
Low-carbon and Zero-emissions Fuels Fund (part of the federal climate plan)	$1.5 billion	This program was established as part of the climate plan, to increase the production and use of low-carbon fuels (e.g., hydrogen, biocrude, renewable natural gas and diesel, cellulosic ethanol). It is as of yet unclear how funding will be spent, but it is likely that a significant portion of the funding will be for fossil fuel-derived hydrogen.
Net Zero Accelerator Fund (part of the federal climate plan)	$3 billion over five years	This program was established as part of the climate plan, to rapidly accelerate decarbonization projects with large carbon emitters, scale-up clean technologies, and hasten Canada's industrial conversion across all sectors. It is likely that a significant portion of this program will be directed towards oil and gas companies.
Sustainable Development Technology Canada (part of the federal climate plan)	$750 million over the next five years	This funding was established as part of the climate plan, to grow the cleantech market plan.

Financing Provided by Crown Corporations

PROGRAM	AMOUNT	FOR WHAT
Business Development Bank of Canada (BDC)	$120 million in credit support	The amount claimed by oil and gas companies from the Business Credit Availability Program (BCAP) - a COVID credit support program run through both BDC and EDC. BDC provides no transparency on recipients, so this number here (which comes from tracking public announcements from oil and gas companies) is likely a large underestimate (includes only loans to small companies including Bonterra Energy Corp., Inplay Oil Corp., Source Energy and Surge Energy).
	Unknown	Cleantech practice: BDC is committing $600 million over the next five years (2018-2023) in both new equity and commercial loans to help cleantech firms scale and expand. It is possible that oil and gas companies could be included.
	Unknown	Industrial Innovation Venture Fund: A $250-million fund bringing innovation and digitization to legacy Canadian industries including agriculture, resource extraction and manufacturing.
	Unknown	$135-million industrial clean-tech and energy fund
Export Development Canada	$8.1 billion	Oil and gas financing provided to support the operations of oil and gas companies both domestically and internationally in 2020.[34]
	$5.25 billion	These amounts were financing renewals and amendments made in 2020 to finance the construction of Trans Mountain pipeline expansion, and came from EDC's Canada Account.[35]

Tax Subsidies

The Department of Finance administers a number of tax provisions that are specific to the oil and gas sectors and that ultimately translate into the oil and gas industry reducing the share of income tax that it transfers to the federal government. The inability to quantify these subsidies underscores the need for greater transparency.

PROGRAM	AMOUNT	FOR WHAT
Accelerated capital cost allowance – LNG, eligible liquefaction equipment	Government data not available	This measure is set to expire in 2025
Accelerated capital cost allowance – LNG, related buildings	Government data not available	This measure is set to expire in 2025
Accelerated Investment Incentive	Government data not available	Allows companies to immediately write off the full costs of new machinery and equipment. It amounted to $3.28 billion in 2020/21 for multiple sectors but the oil and gas portion cannot be specified.[36]
Canadian development expense deduction claims	Government data not available	
Canadian exploration expense deduction claims	Government data not available	This measure is near being completely phased out, with some grandfathering provided until 2021 for expenditures committed to prior to 2018.

Oil and gas property expense deduction claims	Government data not available	
Foreign resource expense deduction claims	Government data not available	
Flow-through shares	$20 million	Flow-through shares are an authorized tax shelter arrangement that allows a corporation to transfer certain unused tax deductions to equity investors. As of 2020, Finance Canada now provides disaggregated data on tax expenditures related to flow-through shares for the fossil fuel sector.
Scientific Research and Experimental Development tax credits	Not quantifiable	$2.84 billion in 2020/21 for multiple sectors - oil and gas portion cannot be quantified.[37]
Tariff exemptions	Government data not available	There is no current government inventory on tariff exemptions that benefit the oil and gas sector. In 2019, the government announced a tariff exemption on imported steel to support the LNG sector in British Columbia.[38] Another tariff exemption is for mobile offshore drilling units for offshore oil and gas exploration.
Carbon Pricing Exemptions	Government data not available	Under the Greenhouse Gas Pollution Pricing Act's Output-Based Pricing System for industrial emissions, methane leaks from oil and gas facilities are not priced. In addition, 80-90% of the oil and gas sector's emissions are not priced.

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PAYING POLLUTERS: FEDERAL FINANCIAL SUPPORT TO OIL AND GAS IN 2020

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