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RE: Canada's Assessment Framework of Inefficient Fossil Fuel Subsidies

To Whom It May Concern,

Though it is no doubt important that Canada meet its commitment to phase-out inefficient fossil fuel subsidies by 2025, I am afraid that the framework put forward here lacks the stringency needed now in 2019, ten years after the G20 meeting where subsidies were first discussed, five years after the Paris Agreement, and one year since the findings of the IPCC special report. In this submission, my principal recommendation is that the department reconfigure this assessment tool so that *any* measure which hinders Canada's pathway to 1.5°C is considered an inefficient subsidy to phase-out by 2025 at the latest.

Upon reading the discussion paper, I was immediately struck by how far we have drifted from the original terms set out in the prime minister's mandate letters to his finance and environment ministers in November 2015. There it was explicit that the pair was to work together to phase-out subsidies for the fossil fuel industry in the medium term. This goes farther than the text of the G20 commitment as it makes no distinction of "inefficient" subsidies, nor does it mention "rationalizations" - the goal here, clearly, is phasing-out government support for fossil fuels. How gravely disappointing, then, that not only did it take till the end of this administration to start working on this priority, but also that the efforts, preliminary at best, were bifurcated into one framework for tax measures, one for non-tax.

The scope was further restricted to “inefficient” subsidies, and finally, to federal measures only.¹

This backpedalling is reminiscent of the administration’s decision to move forward with the Harper-era emissions target for 2030 despite showing leadership early on during the Paris negotiations. We need more of that initial ambition than ever. The IPCC special report gave us a stark portrait of the staggering costs, and perhaps irreversible damage, of allowing global average temperature increase to touch or exceed 2.0°C. Even if all nations partaking in the Paris Agreement were to meet their NDC’s, we would be on track to reach 3.0°C by the end of this century with additional warming beyond that. As such, the IPCC report advised countries to ratchet up their contributions to a 45% reduction from 2010 levels of emissions by 2030. For Canada, that means a steep drop from our current target of 512 Mt CO_{2e} to 382; we are currently on track for 615 Mt, and that excludes expected emissions from the Trans Mountain Expansion Project as well as the substantial emissions stemming from our forests as a result of fires and insect invasions.

In the face of this, outgoing Commissioner of the Environment, Julie Gelfand, rightly called out both Finance Canada and Environment and Climate Change Canada (ECCC) for its trifling efforts to phase-out fossil fuel subsidies. Astonishingly late, extremely rudimentary, and wholly lacking in thoroughness and rigour, the analytical frameworks were judged to be ill-equipped to help Canada meet its G20 commitment. Indeed, it appears that both departments sought to hide behind mealy-mouthed interpretations of ‘inefficiency’ as a way to avoid naming and eliminating any subsidies. Thus in an abundantly convenient position, the government gets to congratulate itself on a job it did not even need to do, securing an unearned and utterly casuistic victory.

1. *Is the definition of ‘fossil fuel subsidy’² and its associated criteria clear and practical? If not, what are your suggestions for improving them?*

The department’s definition seems to have been reverse-engineered to all but guarantee that hardly any subsidies will be identified in the first place. There is a notable departure from language used in the other definitions referenced from the WTO, IEA, OECD, and E.U., namely the use of ‘preferential treatment’ instead of ‘benefit’ or ‘preference,’ and ‘specific support’ instead of ‘transfer,’ ‘contribution,’ or just plain ‘support’. It appears the underlying notion here is that to be a subsidy, the measure must preference activity in that sector relative to other sectors. This means that government support for the fossil fuel industry can be neutralized by applying similar measures to other sectors.

The analytical gap in this definition is that it fails to consider whether the measure more simply incentivizes a fossil fuel company to continue producing or not, independent of what

¹ The G20 did not distinguish subsidies by level of jurisdiction. If the federal government argues that greenhouse gas emissions require a national strategy, there is no reason why the provinces should not be part and parcel of efforts to eliminate contributions to the industry most responsible for said emissions.

² “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.” (Page 6 of the Discussion Paper)



other sectors are doing. Consider that the OECD definition³ – the only other one to use the language of ‘preference’ – takes care to encompass both relative *and* absolute comparisons. This framework would be dramatically improved by adding something similar. In fact, the assessment portion becomes all that much easier since it would take just one ‘yes’ to any of the following questions to identify a subsidy:

- Does the measure lower the cost of producing fossil fuels?
- Does the measure raise revenue for fossil fuel producers?
- Does it lower the price for consumers?

One does not even need to know by how much – so long as it offers any one of these benefits, fossil fuel companies will have a definite interest in maintaining business as usual or furthering development, as the case may be.

On the matter of considering the measure’s ‘specificity’ and ‘normality,’ the framework’s issue here is an underlying assumption that, all things being equal, the social, health, economic and environmental impacts of supporting one sector is the same as the next. The anthropogenic causes of climate change are without dispute, chief among them the combustion of fossil fuels. If the IPCC report from 2014 warned against extracting more than one-quarter of remaining proven oil reserves in order to stay within 2°C, how much less can we take out of the ground if we are to stick to the 1.5°C pathway (inarguably the preferable scenario)?

The proposed analytical framework here seems singularly designed to aid the prime minister, and others of his ilk, in pursuing the 173 billion barrels of oil remaining in Alberta’s oil sands. This scale of planned extraction would account for 16% of the *global* emissions permissible under the carbon budget for a 1.5°C pathway. Canada would have no hope of being a global partner in responding to the climate emergency if we went ahead with such a destructive agenda. The inescapable truth here is that we have no time to waste in moving off of fossil fuels. Any new development or infrastructure is going to drastically, not to say *fatally*, subtract from the time and resources we have for adaptation and mitigation. We must pivot resolutely to a stance that any further support for fossil fuels is untenable.

2. *Are the criteria proposed to assess ‘inefficiency’ clear and practical? If not, what are your suggestions for improving them?*

The urgency of the climate crisis demands long-term thinking and immediate action. For that reason, I cannot support the vague and tepid criteria proposed for an assessment of ‘inefficiency’ in this framework. The effectiveness, efficiency, and equity of measures should

³ “The OECD inventory addresses a broader range of measures, including many that do not reduce consumer prices below world levels. It uses a broad concept of support that encompasses direct budgetary transfers and tax expenditures that provide a benefit or preference for fossil-fuel production or consumption, either in absolute terms or relative to other activities or products. Such measures are classified as support without reference to the purpose for which they were first put in place or their economic or environmental effects. No judgment is therefore made as to whether or not such measures are inefficient or ought to be reformed.”

(<https://www.oecd.org/fossil-fuels/methodology/>)



not be evaluated with just any objective in mind, but squarely in terms of the Paris target. If a measure determined to be a subsidy will sustain or increase Canada's emissions, it must be phased-out by 2025 at the latest.

The window is closing fast. All pathways for 1.5°C in the IPCC Special Report involve at least some level of carbon dioxide removal (CDR). It was stressed, however, that reversing warming after overshooting by just 0.2°C would require scaling up and deploying CDR at a rate that may not be achievable at that point. The instruction here is that we must focus our efforts on reducing emissions now. It is the only way we can ensure an effective, efficient and equitable transition off of fossil fuels. The more we delay, the higher the costs incurred through property damage as a result of extreme weather, stranded carbon assets, and a failure to take part in the booming renewables market. This will hurt Canadians far more in the long-term than any temporary discomfort associated with transitioning to a sustainable world. All parts of this country have incredible potential in renewables, but more than that, we can spread the abundance around so that no region is left behind. There will be no winners and losers in the green economy the way there is with fossil fuels, as long as we start in earnest *now*.

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

According to Oil Change International's [most recent scorecard](#), Canada is the highest subsidizer of fossil fuels per unit of GDP among the G7 nations. I will wager that making the changes I have recommended above would result in ECCC reaching the same conclusion. An analytical framework that defines subsidy as giving preference to fossil fuel production or consumption in *both* relative and absolute terms, and which identifies as 'inefficient' any subsidies that are incompatible with achieving the Paris target will surely recognize the following:

- a) The federal government provided significant non-tax subsidies to fossil fuels in the form of Bill C-69. The assessment exemption for in situ projects is an indefensible handout for the oil and gas industry. We know that 98% of Canada's proven oil reserves are in the oil sands, and of that, 80.6% is recoverable through in situ rather than mining methods. While less visible than tailings ponds, the environmental impact of in situ projects includes steam extraction powered by natural gas, a huge emitter of methane. It will make no difference whether or not Premier Kenney keeps the emissions cap in place since it was always going to exclude greenhouse gas emissions resulting from cogeneration. Switching to solvents would be a deficient solution as it raises serious concerns about groundwater contamination. In sum, it was profoundly irresponsible of the government to exempt in situ projects from a fair assessment of their true environmental cost. It was equally inconceivable that they could adopt this legislation with passing references to our international obligations in respect of climate change, and yet not one word about emissions, whether upstream or downstream.



- b) [Oil Change International's scorecard](#) ranked Canada highest among the G7 in the categories of 'ending support for coal mining' and 'ending support for fossil fuel-based power.' Evidently, the scorecard came out too early to account for the backwards slide of the Alberta government in terms of its transition off coal, as well as the growing but misguided interest across the country in replacing coal with fracked natural gas. With a greenhouse effect at least 25 times that of CO₂, the significant methane emissions associated with producing LNG necessarily disqualifies it from counting towards the transition to a low-carbon economy. As a result of these fugitive emissions, the LNG plant in Kitimat could very well eclipse the oil sands in terms of being [Canada's single largest emitter](#). Underscoring the danger was a report from the Global Energy Monitor released on Canada Day, which claimed the boom in natural gas production is "on a collision course" with the Paris target.

Even if it were true that LNG has a smaller carbon footprint than coal, it must be stressed that, as the IPCC reported, emissions reductions by way of energy or process efficiency gains alone is insufficient for meeting the Paris target. For this reason, we must be extremely skeptical of transitional measures that support the continued production of fossil fuels, whatever their form, and instead focus on helping communities and workers impacted by the transition. One excellent place to start is by excising the natural gas component in the program for "Deploying Infrastructure for Electric Vehicle Charging and Natural Gas and Hydrogen Refuelling Stations," as recommended by the Green Budget Coalition for Budget 2019.

- c) Finally, any analytical framework worth its salt will name government-owned fossil fuel infrastructure and public financing for oil and gas through Export Development Canada as obvious subsidies to terminate in short order. The OCI scorecard ranked us dead last in the category of 'ending support for oil and gas production,' and this was before we purchased a 65-year-old pipeline. As [Dr. Gordon Laxer's policy paper](#) on the Kinder Morgan buyout makes clear, the federal government bought a pipeline that is neither a commercial interest nor in the national interest. The dearth of private investors is why EDC had to step in, drawing \$6.5 billion in taxpayer money from the Canada Account. [Already known for taking on greater risks than the private sector](#), EDC draws on the Canada Account only when it considers the investment too risky even by its own standards. That is how it funded the General Motors bailout in 2009, which as we know did not prevent the company from leaving autoworkers in the lurch a mere nine years later.

The GM story is a cautionary tale, underscoring what Doukas and Scott write in their recent policy paper for Oil Change International: "Public money and government-backed finance is relatively scarce, and should be used in ways that



deliver public goods, not in ways that cause harm and undermine globally-agreed priorities.”⁴ Without an independent economic analysis to back it up, Trans Mountain cannot be claimed to be a public good, certainly not while we lack the science on how to clean up diluted bitumen in the event of a spill. And with 13-15 Mt in anticipated upstream emissions alone, the pipeline expansion is in no way compatible with our international obligations in respect of climate change.

Both EDC and this discussion paper claim the agency operates on ‘commercial principles’ and does not provide subsidies to any industry. But with the government as its guarantor and taxpayer dollars on the line for any unmet or overly risky obligations, one is hard-pressed *not* to see the EDC as a vector for subsidizing projects that meets the government’s political ends. I say ‘political ends’ and not ‘national interest’ because it is clear this administration bent itself out of shape to satisfy the unreasonable demands of one province, sidelining the best interests of the country as a whole.⁵ What do we have to show for this pipeline but a Pan-Canadian Framework in tatters? It should be understood that expanding the pipeline locks us in for about 50 years, well past the date when we need to be off of fossil fuels entirely. It is estimated that the government [overspent on Trans Mountain by about \\$1 billion](#); construction delays, ever-increasing construction costs, and an already weak shipper toll agreement makes it a near certainty that Canada will never recoup the costs of this unnecessary pipeline, much less have extra revenue to support the clean energy we should be subsidizing in the first place. Ultimately, the prime minister is betting against the Paris Agreement working by moving ahead with this project.

Thank you for this opportunity to contribute to the discussion of Canada’s analytical framework of non-tax fossil fuel subsidies. I hope very much to continue the conversation as this work develops.

Best regards,



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⁴ Alex Doukas and Adam Scott, “Risking It All: How Export Development Canada’s support for fossil fuels drives climate change,” *Oil Change International*, November 2018: page 5.

⁵ It is telling that for all its talk of treating climate change seriously, this administration gave more to oil and gas activities through the EDC in its first two years than did the last two years of the Harper administration. In total, between 2012 and 2017, the EDC lent 12 times the financial support to oil and gas than it did for clean technologies. (Ibid, page 4.)

