Incentives or subsidies?

A Resource Works Report

A Resource Works Report Submitted to Canada's Select Standing Committee on Natural Resources

Authorship

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Stewart Muir

Stewart Muir is the founder and CEO of the Resource Works Society and a sought-after voice on responsible natural resource development in BC and Canada. In 2019, he also founded the Indigenous Partnerships Success Showcase, an annual event sharing inspiration and best practices from examples of thriving Indigenous-enterprise partnerships.

In addition to his role advocating for the public interest in BC and across Canada, Stewart also leads multiple companies in the clean-tech and natural resource space.

Stewart is a former journalist who was business editor, national editor, and deputy managing editor of The Vancouver Sun. He led change management initiatives for Canwest publications and the Canwest News Service, and launched a new operating division of The Canadian Press providing editorial services to publications including The Globe and Mail and The Toronto Star.

Stewart also served two terms as a director of The Nature Trust of British Columbia and co-authored the award-winning natural history book, The Sea Among Us: The Amazing Strait of Georgia.

About Resource Works

The Resource Works Society is a public-interest advocacy and communications not-for-profit based in Vancouver, British Columbia. Our mission is to reignite the promise of Canada's economic future by leading respectful, inclusive and fact-based dialogue on natural resource development.

Resource Works advocates for natural resource policies that benefit Canadians, recognizing that responsible practices and a healthy export economy contribute greatly to our quality of life.

Our work helps show how resources have "worked" for citizens in the past and how they can continue to do so in a new climate defined by environmental responsibility and Indigenous reconciliation. We communicate the importance of resource sectors to personal well-being and opportunity, demonstrating how responsible development creates jobs and incomes, both directly and indirectly, while maintaining a clean and healthy environment.

The majority of our funding is derived from delivering events, including the annual Indigenous Partnerships Success Showcase that will be staged for the 4th year on June 1 and 2, 2023, in Vancouver.

This report on fossil-fuel subsidies and incentives is derived from Resource Work's submission to the Canadian Parliament's Standing Committee on Natural Resources regarding its study on fossil-fuel subsidies.

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Background on fossil-fuel subsidies

Since the Finance ministry has reported that inefficient fossil-fuel subsidies have been eliminated, it is difficult to see why we are even still talking about this topic, and why it contiunues to garner the attention of lawmakers.

The G20 definition of an inefficient fossil-fuel subsidy is that it:

- Encourages wasteful consumption;
- Impedes investment in clean energy sources;
- Undermines efforts to fight the threat of climate change.

Subsidies occur where fossil-fuel consumption is subsidized. We do not have that issue here. In fact, Canadian consumers face a stack of taxes and levies designed specifically to curb usage.

The Canadian government has only so many levers to affect what companies do. There are several good reasons to use incentives – which can sometimes be described as subsidies.

We also sometimes hear the belief that a dollar deployed in one area equals a dollar withheld from another. This is simply not how things work.

Stewart Muir at the Canadian Parliament's Select Standing Committee on Natural Resources.

In British Columbia, $90 billion in upstream gas investment was triggered by $2 billion worth of subsidies in the form of deep-well royalty credits. Great social and climate benefit was created by bringing this lower-emission fuel to market. It would be difficult to find a more productive return on subsidy dollars. Nevertheless, the industry has faced an onslaught of opposition on the grounds that the credits were "handouts" representing the one-way flow of public funds to private interests for no benefit, which is the exact opposite of the truth.

Careful listening to what corporate Canada is asking for reveals that they quite reasonably prefer a hand-up in a highly competitive world, not a handout.

In 2022, more decision-makers around the world are realizing that simplistic conceptions of energy systems can no longer be indulged, if we want to be serious about climate action. These three recent developments are noteworthy and should be considered in any decisions by Canada:

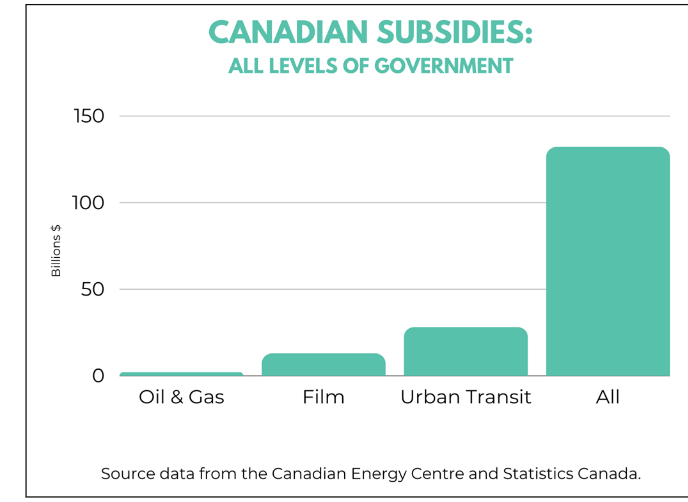
1. The European Union in July passed the Complementary Climate Delegated Act recognizing that natural gas power plants are climate-friendly. Canada has yet to update its energy policy to reflect this significant change to the climate policy landscape.
2. President Biden's Inflation Reduction Act was passed in August and is deploying billions of dollars of subsidies to achieve green goals via the private sector. The bill includes an enhanced carbon capture tax credit and spurs other climate-friendly technologies including hydrogen, advanced nuclear reactors, and sustainable aviation fuel.
3. In Egypt, the final text of COP27 recognized the place of "low-emissions energy" in climate action. Until now, COP language has been narrowly focused on promoting renewables, which are an important part of the solution but not the complete solution. This shift, urged by the International Energy Agency and approved by almost 200 nations, is light on detail and has attracted some criticism. However, it is a clear sign of growing awareness that the world cannot wish its way to decarbonization goals by focusing solely on weather-dependent energy sources.

Taken together, these developments signal a positive trend for climate pragmatism.

In conclusion, subsidies have their use and should be seen in perspective. This is not about consumer fuel giveaways. It is about recognizing that market forces, or the pursuit of profit, will always be the greatest force of change. Numerous factors affect how governments should decide climate and industrial policy via efficient markets:

1. Emissions reduction
2. Worker earnings growth
3. Investment conditions
4. Indigenous reconciliation
5. Skills and employment
6. Regional development
7. Energy security
8. Market access
9. Energy reliability and affordability
10. Availability of alternatives (i.e., critical minerals and energy metals needed for mass electrification)

A huge increase in low-emissions energy is needed if the world is to hit climate targets. The "fossil-fuels VS renewables" narrative is increasingly proving to be an impediment toward this goal. There should be more, not less, subsidization of all new technologies. This will require directing support to all types of enterprises including established energy companies that are singularly well-equipped to deliver emissions reductions and can do more when incentivized.



At this time, there is no evidence that a better path exists for those who are serious about climate goals.

A balanced view of subsidies

There are two main kinds of subsidies: consumption and production subsidies. According to the Montreal Economic

US President Joe Biden signed the Inflation Reduction Act in 2022, with implications for Canadian competitiveness.

Institute (MEI), Canada does not have consumption subsidies for fossil-fuels. As already mentioned, Canadian consumers face various taxes and levies designed to reduce fossil-fuel usage. Even before Canada introduced its carbon price, taxes represented around 31% of the price paid at the gas station.

As for production subsidies, the MEI writes that many of the programs pressure groups call ‘subsidies’ are actually “just a particular tax treatment that is common to the natural resources sector as a whole, which is faced with a specific economic reality.”

Industries like mining and energy require massive amounts of start-up capital, not just for exploring resources but also for construction costs. Sometimes years go by between that initial investment and the profits that follow. So, as MEI writes:

“Certain government programs allow companies that develop natural resources to reduce the taxes they have to pay in the short term and defer them until later in the production cycle. But to call this a subsidy is to be disingenuous. This is just a common-sense measure whose purpose is to ensure the neutrality of the tax system between different industries.”

Clearly, there is some confusion about the contributions of the oil and gas industry to the Canadian economy, cloaked in the deceiving language of “subsidy”.

Consider a remote northern community. It has no effective way of generating power other than using a diesel-fuelled generator provided by government. Is that a subsidy to the oil industry? Some of the anti-petroleum activists in Canada think so and happily define it as such.

According to this logic, even roads and airports count as fossil-fuel subsidies, so long as the hydrocarbon companies receive some benefit. Once more, wild definitions — and questionable math — are in daily headlines. Many in mainstream media accept these definitions as they cite the results of reports carried by outlets without any stated effort to investigate if such reports are accurate or fair. One example quotes from the latest “report” from the International Institute for Sustainable Development (IISD) on three pipeline projects: Trans Mountain, Keystone XL and Coastal GasLink.

IISD insists: “Oil and gas pipelines in Canada received over CAD 23 billion in Canadian government support over the past 3 years — including CAD 10 billion since COVID-19 began.” And it adds: “CAD 23 billion is likely an underestimate because calculating full levels of subsidies and other government support is impossible due to a lack of government transparency.”

Groups like IISD often take aspects of tax measures and royalty programs – tools that generate revenue for governments – and mischaracterize them as subsidies. Things like roads, airports, and reductions in vehicle registration fees are often included. This creates a great deal of unnecessary confusion. It’s worth keeping in mind that resource production in Canada is subject to royalties, charged by the provinces that own the resource, and taxes from every level of government. The exact opposite of a subsidy, incentives are significant drivers of income for municipalities, provinces, and the federal government. From 2017 to 2019, the upstream oil and natural gas sector contributed an average of $10 billion per year to governments across Canada through royalties, taxes, and other revenues.

Since 2003, when BC introduced the Deep Royalty Credit program, the natural gas and oil industry has invested $90 billion into the province. That investment, in turn, generated $24 billion in direct provincial government oil and natural gas revenues – an average of over $1.3 billion of direct resource revenues every year.

Some subsidies do exist. One new support from the federal government, worth $1.7 billion, is for environmental clean-ups of “orphaned and inactive wells.” Not counting that subsidy, which is not intended to help the industry grow, the Canadian Energy Centre shows that between 2010-2016, all subsidies to the Canadian oil and gas sector, including federal, provincial, and local subsidies, came to $1.9 billion.

Compare that number with the $131.8 billion Canadian governments spent on other industries. When all is said and done, oil and gas represented only 1.4% of all subsidies to Canadian enterprises, well below urban transit and film subsidies.

For an industry worth 9.7% of Canada’s nominal gross domestic product (GDP) in 2021, that exported $153.3 billion worth of goods in 2021 and which contributed an average of $13 billion to government revenues between 2015-2019, $1.9 billion in subsidies (over 6 years no less) seems a rather good return on investment.

Indeed, considering the enormous cost of emissions reduction plans currently proposed by the Pathways Alliance, a partnership between Canada’s six largest oilsands producers, the case could be made for further government investments. Or, alternatively, for regulatory

Prime Minister Justin Trudeau and environment minister Steven Guilbeault.

Pierre Poilievre upon winning the leadership of the Conservative Party of Canada. Poilievre’s victory speech indicated a new approach to emissions reduction focused on technological support.

and tax reforms to attract futher investment into the sector and in Canada's ongoing energy trasnformation, being led by the domestic energy industry.

Toward an inclusive approach to subsidies and encouraging industry

An inclusive approach to climate and emissions reduction should leverage the climate leadership being shown by the Canadian oil and gas sector – and enable producers to meet global demand for our energy products.

As the crisis in Europe has shown, systemic underinvestment in oil and gas infrastructure leaves countries vulnerable to the whims of others in times of geopolitical conflict. Ongoing capital formation in Canada is necessary for both meeting global energy demand and ensuring that decarbonization can receive adequate investment in line with net-zero by 2050 objectives.

In order to enable the necessary investment, a more competitive business environment is needed. Federal energy and climate policy must be coherent and consistent, and seek to avoid duplication or conflict with provincial and territorial measures. Federal regulatory systems should better promote innovation, agility, and public and investor confidence.

The existing approach is especially complex and frequently forces courts and regulatory processes to serve as pressure release valves for unresolved policy issues – constraining the development of responsible energy projects in the public interest and degrading public confidence in decision-making. The history of opposition to the Trans Mountain Expansion Project is only one example.

Generally speaking, efforts to reduce emissions should not prematurely cut Canadian production of oil and gas. The world continues to rely on fossil-fuels, and climate change is global, requiring coordinated global solutions.

Lowering the emissions intensity of the products we sell on global markets is the objective – not merely replacing Canadian oil and gas products with those produced in other, less climate-conscious jurisdictions.

Prime Minister Trudeau and Prime Minister Fumio Kishida of Japan. Kishida requested more Canadian LNG during his 2023 visit to Canada. The Canada LNG terminal could supply 9% of Japan's LNG. Photo from the Hill Times.

Moreover, while the federally-funded carbon capture, utilization and storage (CCUS) tax credit is a good starting point for a competitive carbon technology industry, more work is needed to ensure that it is adequately funded to attract investment to Canada and enable the energy sector to achieve its ambitious energy transformation objectives.

Opposition exists to anything that has an impact on the landscape, whether it is a pipeline, a transmission line, a mine, a ski resort or a wind farm. What is the way to ensure that responsible projects are built in Canada, and their developers are not driven to build them elsewhere because of hostile local conditions?

Parliamentarians and all Canadians must ask themselves if they want a functioning energy system for Canada or not. The current global energy crisis is providing a moment of opportunity for wider discussions about what is realistic and what is aspirational.

Recommendations

1. Take an inclusionary approach to climate action and energy security by working collaboratively with industry on emissions reduction, including providing further incentives for the adoption of emissions reduction technologies.
2. With the advent of the US Inflation Reduction Act, Canada is at risk of losing competitive advantages in market-driven emissions reduction. The federal government should lose no time in reviewing its own plans in this area, for example through providing subsidies and other incentives that ensure the most is made of Canada's natural advantages.
3. Review the competitiveness impacts of overlapping energy and climate policies across federal, provincial and territorial lines. Removing barriers to competitiveness will help Canada provide energy solutions domestically and internationally while helping fund the energy transformation.

The Peace Tower lit up in support of Ukraine following Russia's invasion. Photo from the Canadian Press.

Resource Works

OUR MISSION

To reignite the promise of
Canada's economic future
by leading respectful, inclusive and
fact-based dialogue on responsible
natural resource development.

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