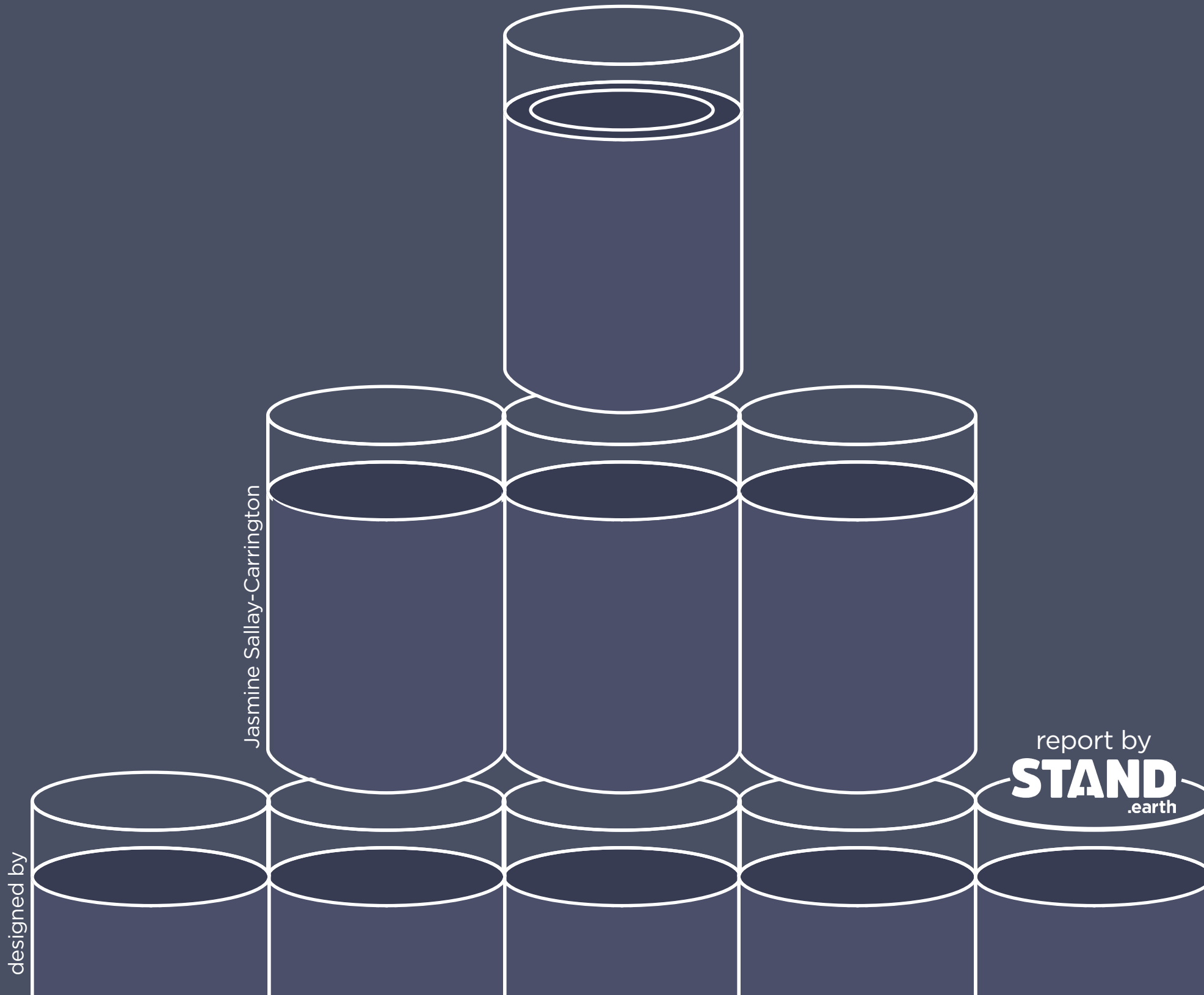


Subsidizing Climate Change

how BC gives billions to corporate polluters



Executive Summary

Premier John Horgan's British Columbia government has become one of the most generous subsidizers of oil and gas in Canada. In fact, BC is now second only to Alberta in providing subsidies to the fossil fuel industry.

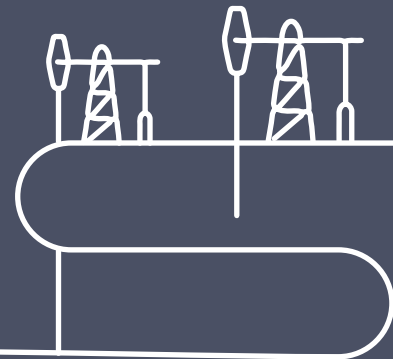
In just two years, the NDP government has doubled fossil fuel subsidies to \$1 billion. The biggest source of this generosity is the deep-well royalty credit. **At \$350 million annually, BC has incurred \$2.6 billion in outstanding royalty credits from natural gas producers, a liability that reduces public revenues for future generations.**

Because of these lavish subsidies to Big Gas, BC pays out substantially more in fossil fuel subsidies than the province earns in oil and gas royalties--**and that gap is growing year over year.**

Fossil fuel subsidies are a huge barrier to climate action and transitioning our economy away from fossil fuels. They make it almost impossible for BC to meet its 2050 carbon emission targets. Emissions from sky-rocketing liquid natural gas production alone would exceed BC's target by 160 per cent.

While there seems to be plenty of handouts for Big Oil and Gas, spending on BC's climate programs pales in comparison. Premier Horgan's government spends twice as much on fossil fuel subsidies as it does on its entire climate change program. In fiscal year 2019-20, the NDP government spent \$998 million on oil and gas and just \$484 million on reducing greenhouse gas emissions. This trend is predicted to continue through 2023.

The BC government needs to immediately cancel the deep-well royalty credit and embrace the federal government's plan to eliminate fossil fuel subsidies by 2025. This will free up hundreds of millions of dollars annually to invest in the province's economic recovery from the COVID pandemic, meeting its emissions reduction targets and transitioning to a clean energy economy.



Corporate Welfare for Big Oil & Gas

Even as Canadian governments claim their greenhouse gas reduction policies will wean us off the fossil fuels that cause climate change, they reward even the biggest and most profitable oil and gas companies with taxpayer-funded financial benefits.

While policies such as the carbon tax are meant to decrease the production and combustion of fossil fuels, the subsidies enjoyed by Big Oil & Gas do exactly the opposite: they actually promote the production and consumption of the same dirty fuels that are warming the planet beyond all recognition.

In BC, fossil fuel subsidies include provincial tax exemptions, royalty reductions and credits, and direct investments in infrastructure and technology. Indeed, BC is unique in the generosity of subsidies it grants the natural gas industry, all in an effort to expand the production and export of liquified natural gas (LNG) in particular, a dirty fuel source that is both an economic and a climate disaster.¹

And the handouts Horgan's government gives to Big Oil & Gas are growing out of control.

Premier John Horgan's Record on Fossil-Fuel Subsidies

In 2019-20, BC's NDP-led government will spend 79% more on oil and gas subsidies (\$998 million) than the BC Liberals did the last year they were in power (\$557 billion). fossil fuel subsidies are estimated to increase to \$1.1 billion in 2022-23, more than double what the BC Liberals spent.

Unlike the BC Liberals, the NDP government has given the oil and gas industry hundreds of millions of dollars in direct support (capital expenditure, project financing, cash payments), and upwards of a billion dollars in indirect support (tax incentives, refunds, and royalty waivers).

In 2019-20, the NDP government gave the oil and gas industry four times as much money in subsidies (\$998 million) as it earned in oil and gas royalties (\$198 million).

In 2019-20, the NDP government spent more than twice as much subsidizing oil and gas development (\$998 million) than it did on its climate change program (\$484 million), a trend that is predicted to continue through 2023.

Meanwhile, budgets for the Ministry of Environment and Climate Change and BC Parks will decline from 2019-20 through 2022-23, while O&G subsidies will, for the first time ever, top \$1 billion in 2022-23.

Garth Lenz

Big Bucks for Big Gas

Apart from oil-centric Alberta, BC provides more subsidies to fossil fuel corporations than any other province.

According to Premier Horgan's 2020 government budget, fossil fuel subsidies totaled \$998 million in fiscal year 2019-20 and are forecast to surpass \$1 billion in fiscal year 2021-21—almost twice as much as the BC Liberals spent in 2017-18, their last year in power.

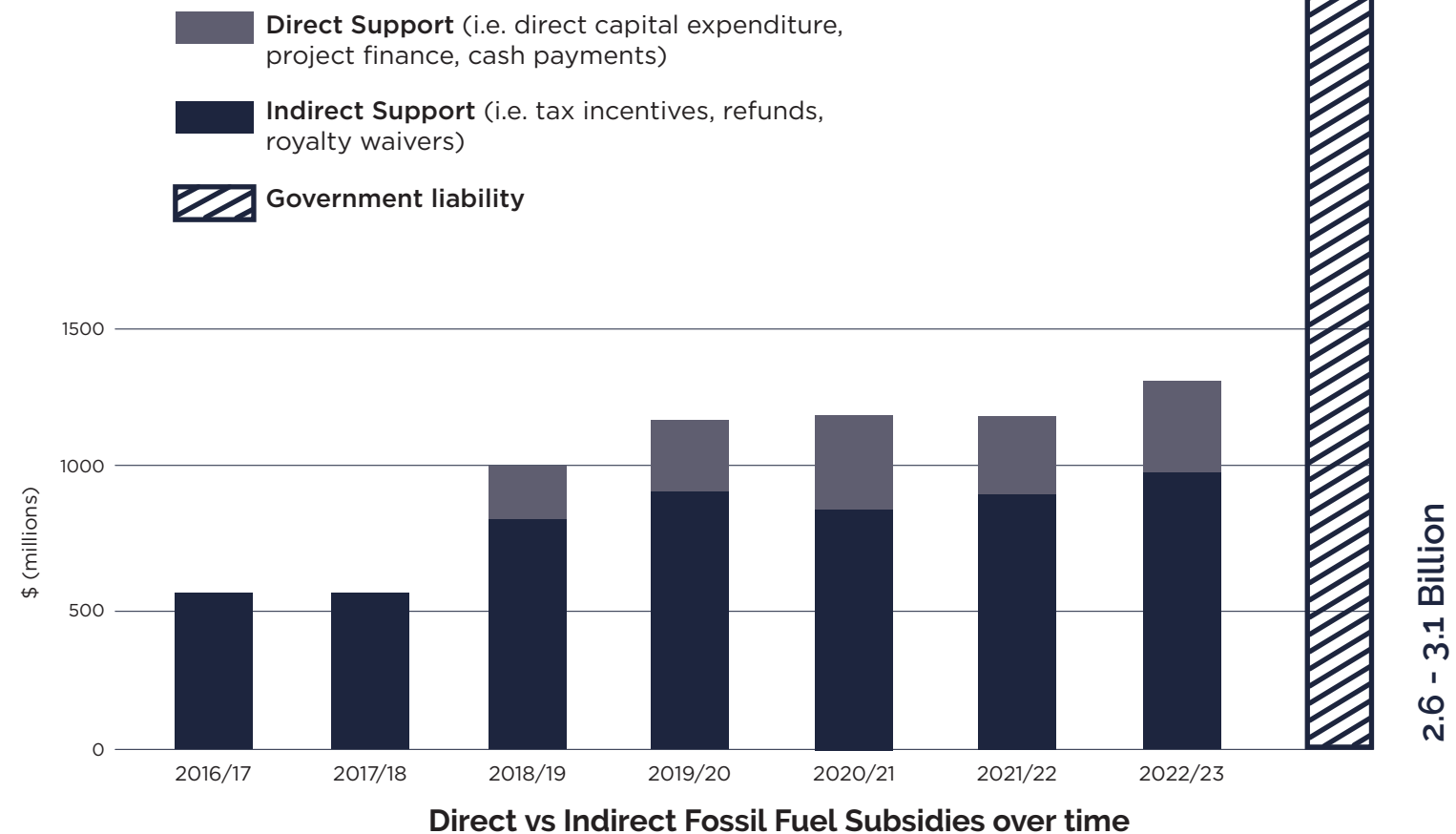
The vast majority of these subsidies go to Big Gas. At an estimated average of \$231 million per year between 2018-23. The biggest direct fossil fuel subsidy is what's known as the Deep-Well Royalty Program, which provides royalty credits to companies that drill deep wells, usually by fracking. This program was enacted by Gordon Campbell's Liberal government in 2003 to incentivize the drilling of deep and horizontal wells, which at the time was a relatively new and expensive way to access natural gas deposits.

Now, fracking is commonplace--there are more than 21,000 active and abandoned wells in northeastern BC, the only area of BC producing commercial quantities of oil and gas. Depending on how deep a well is, it is eligible for between \$440,000 and \$2.8 million in royalty credits, which reduce the royalties payable for a producing well. Given the huge number of wells being drilled to expand fracking in BC, deep well royalties have increased from an average of \$240 million annually in the last two years of Christy Clark's Liberal government (2016-2018) to \$350 million per year under Horgan's NDP government (2018-23).

Worse, this subsidy has created an enormous government liability estimated to be between \$2.6 and \$3.1 billion--a fact that the Horgan government attempted to keep secret--and will only continue to grow. These outstanding royalty credits will have to be paid back by taxpayers at some point in the future, reducing revenues that would otherwise be available to fund public services for future generations.³

The second biggest publicly funded fossil fuel windfall is the so-called Clean Growth Infrastructure Royalty Program, which encourages investment in natural gas infrastructure that reduces methane leakage. This program gave \$48 million to the fossil fuel industry in 2019-20, which will increase to more than \$100 million in both 2021/22 and 2022/23.

Unlike Christy Clark's BC Liberals, Premier John Horgan's NDP government also has begun to invest public funds directly in fossil fuel production. Most of this is \$86 million of support for LNG Canada's plant in Kitimat. It also has provided \$100 million in capital funding so local communities along the LNG pipeline can build needed infrastructure projects.



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Climate Implications

Premier Horgan's growing subsidies for Big Oil and Gas are a significant reason for our inability to meet the province's greenhouse gas reduction target.



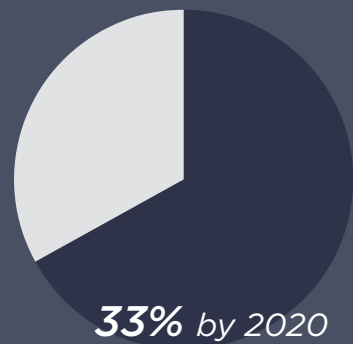
Garth Lenz

Way back in 2007, Gordon Campbell's Liberal government set a reasonably robust goal of reducing BC's emissions by 33 per cent from 2007 levels by 2020. The Liberals failed to adequately reduce greenhouse gas emissions during their tenure, and the Horgan government, with the blessing of Green Party Leader Andrew Weaver, is following their lead. Rather than reduce subsidies to the oil and gas industry, they have doubled down on LNG and revised the province's emissions target to a 40 per cent reduction from 2007 levels by 2030, even as the urgency to reduce greenhouse gas emissions to meet the goals of the Paris Agreement continues to grow.

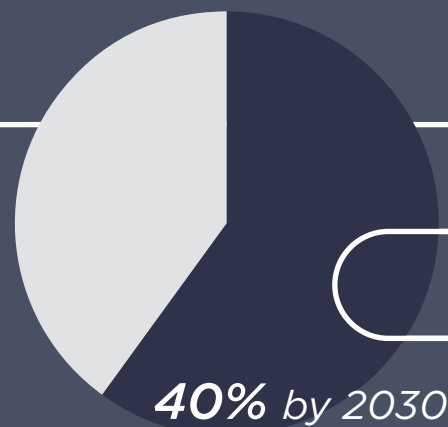
The uncomfortable truth is that the BC government pays the oil and gas industry more per tonne of CO₂ generated by oil and gas production than it gets back in revenue from the carbon tax.

In 2018, the last year data is available, BC's oil and gas industry generated 13.3 MT CO₂e.⁴ That year, the carbon tax was \$35 a tonne, but subsidies were \$557 million, or \$41.88 per tonne of CO₂ emitted. Greenhouse gas emissions from oil and gas production are predicted to increase, but not

nearly as fast as the NDP government has increased subsidies. Assuming greenhouse gas emissions from the oil and gas industry remain stable, and using subsidies from 2019-20 (\$913 million) and the projected carbon tax of \$40/tonne, the BC government will pay Big Oil and Gas \$68.65 per tonne of CO₂ emitted, 170 per cent more than it will have received in carbon taxes.



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amount received in carbon tax **\$35** per tonne of carbon emitted

subsidies given **\$41.88** per tonne of carbon emitted

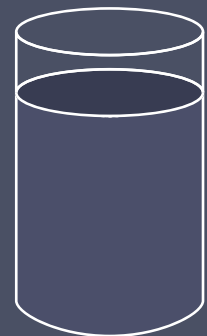
amount NDPs are paying Big Oil **\$68.65** per tonne of carbon emitted

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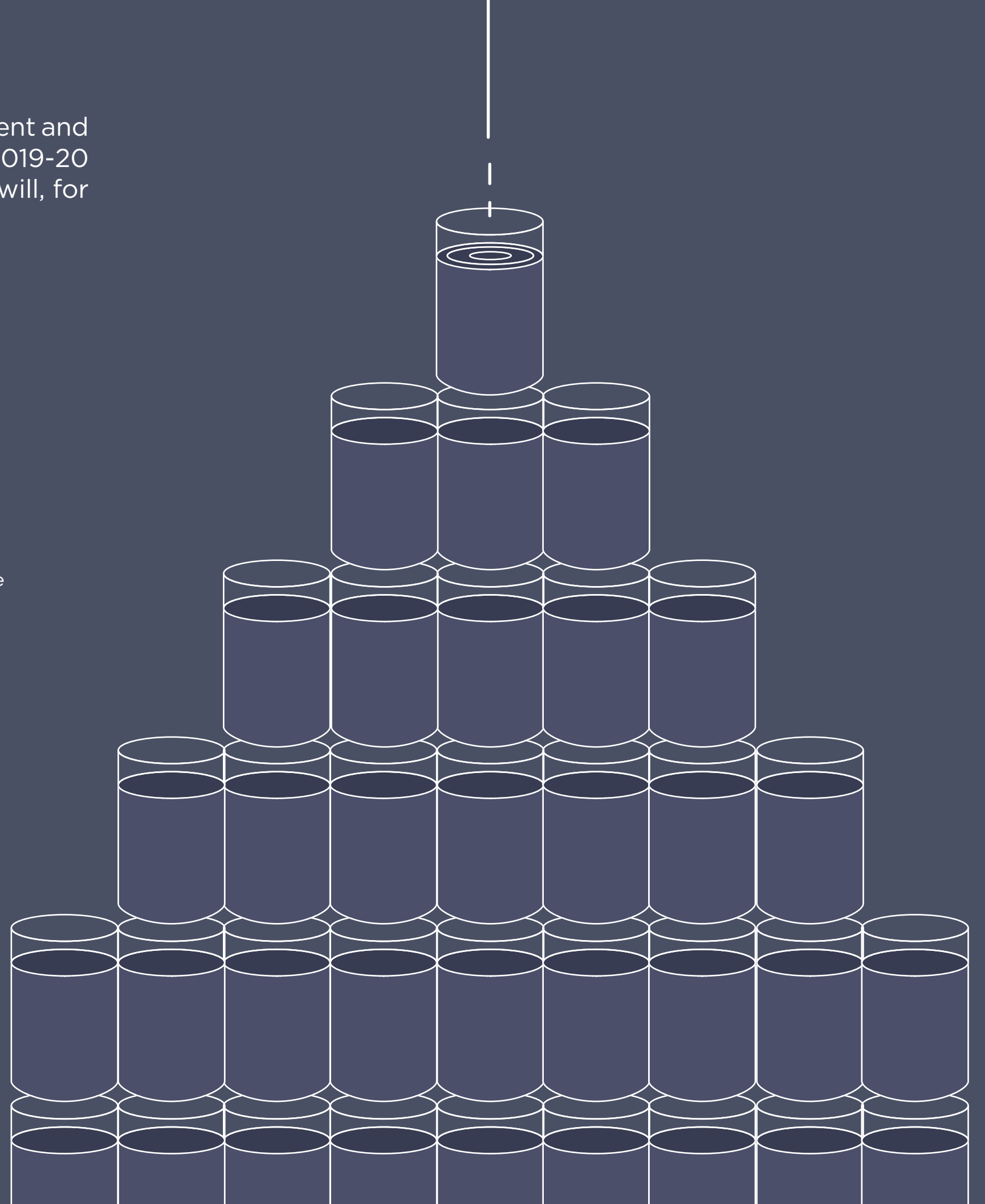
...Meanwhile, budgets for the Ministry of Environment and Climate Change and BC Parks will decline from 2019-20 through 2022-23, even while fossil fuel subsidies will, for the first time ever, top \$1 billion in 2020-21.

Such massive subsidies for the fossil fuel industry—mostly to incentivize the LNG industry, which relies on fracking—only serve to increase greenhouse gas emissions, both in BC and in those countries that import and burn our fossil fuels. The fact is, LNG is not the climate panacea its cheerleaders would have you believe. Methane emissions have a global warming impact 34 times greater than CO2 over 100 years, and the tens of thousands of unconventional wells (i.e. fracking) that dot the forests of northeastern BC leak a lot of methane. This means LNG is only 10 per cent cleaner than best-technology coal being built in China, hardly a “clean” alternative worth investing billions of dollars in.⁵

In fact, a recent analysis found that increased LNG production would make it impossible for BC—and therefore Canada—to meet its 2050 emission targets. **Emissions from LNG production alone, even if all other sectors of the economy were reduced to zero by 2035, would exceed BC’s target by 160 per cent.**⁶



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BC's growing green-house gas emissions contribute to a variety of harmful climate impacts that BC residents and politicians will have to live with, at great expense.



As BC's own Preliminary Strategic Climate Risk Assessment made clear last year, BC will be a more hostile place by 2050 unless we reduce our emissions.⁷ Heatwaves will become hotter and more common, and wildfires will grow bigger, hotter and more frequent. As glaciers melt at record pace, the amount of seasonal and long-term water will become scarcer, even while flooding becomes more severe and devastating. On top of the obvious impacts to ecosystems, species at risk and human well-being, these increasingly severe impacts will cost an inordinate amount of taxpayers' money to mitigate.

In 2050, one can imagine Premier Horgan and his ministers and MLAs looking back on their tenure in the 2020s and wishing they had spent their billions not on oil and gas handouts, but on the new economy based upon clean energy alternatives and energy efficiency upgrades.

True Cost of Fossil Fuel Subsidies

A billion dollars a year is a lot of money to give to Big Oil and Gas every year, but it gets even more troubling when you consider it in the context of other budget line items. Of particular concern is the fact that average annual revenue from oil and gas royalties is just 25 per cent of the public money the NDP government spends to prop up the fossil fuel industry every year. **That's right: while Premier Horgan's government spent \$922 million on fossil fuel subsidies in its first year governing—an increase of 79 per cent over what the BC Liberals spent—it took in only \$241 million in oil and gas royalties.** That's a return of just 26 per cent on what it invested. Fiscal year 2019-20 was even worse: fossil fuel subsidies increased to \$998 million, while royalties dropped to \$198 million, a 20 per cent return. And even with wildly optimistic estimates of increased natural gas royalties out to 2023, associated increases in subsidies means the fossil fuel industry never pays back more than 27 per cent of the money it gets from the public purse.

The federal government recently provided \$100 million to BC to clean up some of them, but when the fossil fuel industry is already getting \$1 billion in government handouts, it stands to reason they should clean up the mess they made on their own dime.

Although the BC government tabled a balanced budget in February, the COVID-19 pandemic has turned the economy on its head, reducing government revenues by more than \$6 billion.⁸ Surely the billion-dollar handout the BC government gifts to Big Oil and Gas each year could be better spent in other ways. Instead of subsidizing industrial development that warms the planet and prevents the government from reaching its greenhouse gas reduction targets, Premier Horgan's government could choose to earmark this money to provide income assistance and much-needed public services—like assistance for renters and small business—while we dig ourselves out from the economic collapse from the COVID-19 pandemic. This should include investing more in their CleanBC plan and, especially, creating a clean-energy economy that provides good, well-paying jobs and reduces carbon pollution so BC and Canada can meet our commitments under the Paris Agreement and avoid the worst impacts of climate change



Recommendations



Create a pathway to phase out fossil fuels

Cancel deep-well royalty credit program in the next budget.

Embrace the timeline set by the federal government to phase out of all fossil fuel subsidies by 2025 and instead invest the hundreds of millions of dollars in northern communities impacted by oil and gas.

Meeting our CleanBC targets

Rule out the use of carbon offsets or trading schemes to account for the missing 25 per cent of BC's 2030 emissions target.

Use the Climate Accountability Act to create a stand-alone reduction target for the oil and gas sector that ensures everyone does their fair share to meet our climate targets.

Adopt a net zero emissions by 2050 target in line with the commitment made by the federal government.

No new permits for oil and gas projects.

Stronger regulations on fracking

Make sure that industry, not taxpayers, are covering the cost of cleaning up orphaned and inactive wells through legislated bond requirements.

Reduce cumulative impacts on the landscape through better land-use planning.

Reform the BC Oil and Gas Commission by:

- creating a new, arm's-length agency to oversee compliance and enforcement.

- Restoring regulation-making powers to the Ministry of Minister of Energy, Mines and Petroleum Resource.

- Increased transparency through better public reporting of decisions made by the Commission

- Creating new co-management or co-governance agreements with First Nations.

Transition to a sustainable economy

Consult with workers and fossil fuel extraction communities, using the model developed by Rachel Notley's government in Alberta for transitioning off thermal coal, to find pathways to a sustainable economy.

Use savings from canceling fossil fuel subsidies to invest in building retrofits and expanding access to broadband in rural BC.

Stop forcing Indigenous communities, like the Blueberry First Nation, to go to court to seek redress for inadequate consultation over energy projects. It is way past time to focus on reconciliation by seeking true free prior and informed consent before energy projects are permitted.

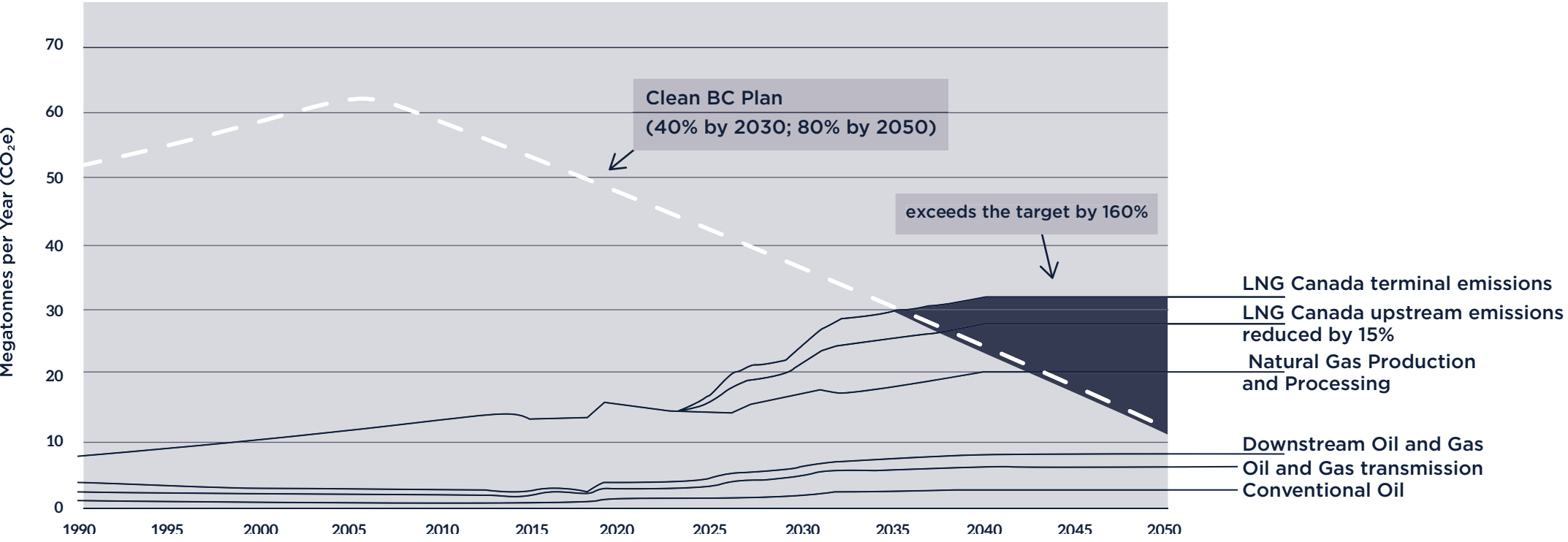




Graphs & Endnotes

- 1 Mikulka, Justin. "U.S. LNG Industry's Business Model Doesn't Work". DeSmog. Aug. 25, 2020. <https://www.desmogblog.com/2020/08/25/us-lng-export-industry-business-model>. Accessed Sept. 8, 2020.
- 2 Macleod, Andrew. "BC's Drilling and Fracking Credits a \$1.2 Billion Subsidy in Recent Years." The Tyee. Nov. 13, 2019. <https://thetyee.ca/News/2019/11/13/BC-Fracking-Drilling-Credits/> Accessed Sept. 8, 2020.
- 3 Corkal, Vanessa and P. Gass. "Locked in and Losing Out: British Columbia's Fossil Fuel Subsidies." International Institute for Sustainable Development. November 2019.
- 4 BC Provincial Greenhouse Gas Emissions Inventory 1990-2018. <https://www2.gov.bc.ca/gov/content/environment/climate-change/data/provincial-inventory>. Accessed Sept. 8, 2020.
- 5 Hughes, David. "BC's Carbon Conundrum: Why LNG exports doom emissions-reduction targets and compromise Canada's long-term energy security." Canadian Centre for Policy Alternatives. July 9, 2020.
- 6 Ibid.
- 7 Preliminary Strategic Climate Risk Assessment for British Columbia. BC Climate Action Secretariat, BC Ministry of Environment and Climate Change Strategy. July 2019.
- 8 Macleod, Andrew. "Pandemic Drives BC Government to a \$12.5 Billion Budget Deficit." The Tyee. July 14, 2020. <https://thetyee.ca/News/2020/07/14/Pandemic-BC-Deficit/>. Accessed Sept. 8 2020.

Projected oil and gas emissions in BC based on CER's forecasted production, with additional emissions to supply gas to the LNG Canada terminal and emissions from the terminal itself.



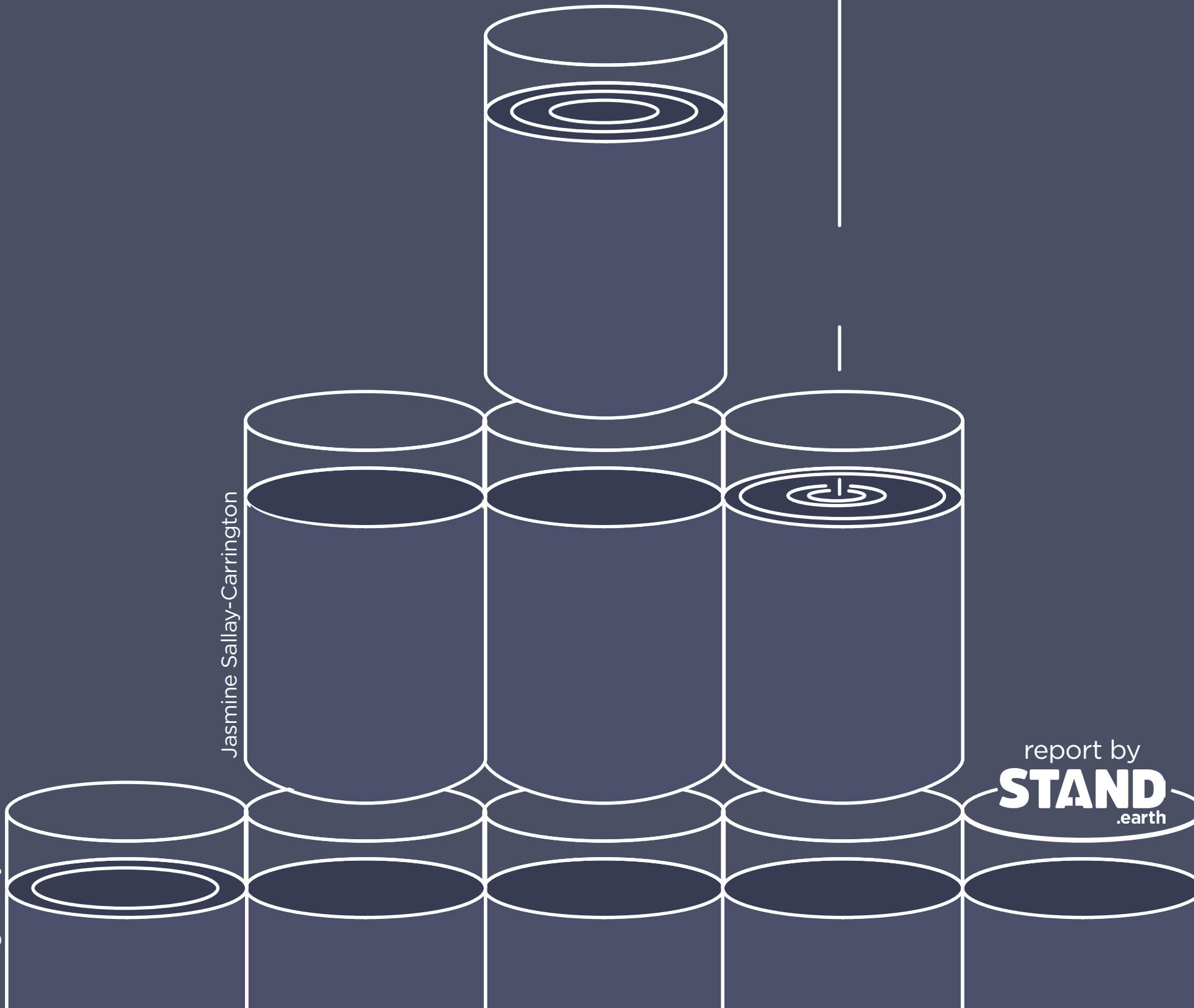
Sources: Data from Environment and Climate Change Canada, National Inventory Report 1990-2018: Greenhouse Gas Sources and Sinks in Canada; and Canada Energy Regulator's Canada's Energy Future 2019 report (CER's 2040 production forecast is held flat through 2050).

Graph adapted from J. David Hughes



designed by

Jasmine Sallay-Carrington



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