


Subsidizing Climate Change 2021

**How the Horgan government
continues to sabotage
BC's climate plan with
fossil fuel subsidies**



Highlights:

Premier John Horgan's Worsening Record on Fossil Fuel Subsidies

In 2020–21, BC's NDP-led government spent \$1.3 billion on fossil fuel subsidies — 8.3 percent more than the previous year — and they are now **more than double what they were when Premier Horgan's NDP took power.**

In 2020–21, the NDP government spent more subsidizing fossil fuels (\$1.3 billion) than it did on its climate change program (\$1.1 billion), a trend that is predicted to increase dramatically through 2024.

The largest single source of this increase is the Deep Well Royalty Program, a tax loophole for fracking operators, which is projected to cost taxpayers \$421 million this year. The outstanding liability fracking companies have amassed through unused Deep Well Royalty Credits has grown to \$3.1 billion.

By 2023–24, the government plans to spend almost \$1.8 billion on fossil fuel subsidies, including a 150 percent increase in the Deep Well Royalty Program.

In 2020–21, the NDP government gave the oil and gas industry almost five times as much money in subsidies as it earned in oil and gas royalties (\$282 million), a higher ratio than it did in 2019–20.

The NDP government consistently underestimates the costs and future liabilities of its oil and gas subsidies and overestimates the royalties it will earn from the oil and gas sector, creating a vicious feedback loop that will cost current and future taxpayers billions of dollars.

Introduction: The Road Away from Net-Zero

In May 2021, the International Energy Agency (IEA), the most influential energy policy organization in the world, issued *Net Zero by 2050: A roadmap for the global energy system*.¹ It's the IEA's most ambitious report yet, and details how the world can meet its shared climate aspirations and reach net-zero carbon emissions by 2050. *Net Zero by 2050* is a timely guidebook for recently re-elected British Columbia Premier John Horgan, who committed to passing legislation that commits BC to achieve the 2050 net-zero goal.

One of the foundational pillars of the IEA analysis is the need to immediately eliminate investment in, and approvals for, oil and gas projects. "There is a growing gap between the rhetoric we hear from governments and industry leaders, and what is happening in real life," said IEA Executive Director Fatih Birol, warning that carbon emissions continue to rise substantially despite increasingly ambitious government commitments.²

In March 2021, BC announced sectoral targets, which set 2030 climate pollution reduction targets for each sector of the economy, including a stand-alone target for the oil and gas industry.³ Our analysis of Premier Horgan's 2021 budget reveals that increasing subsidies to the oil and gas industry will make it all but impossible to rein in carbon emissions and set BC on a path to a net-zero future in 2050.⁴

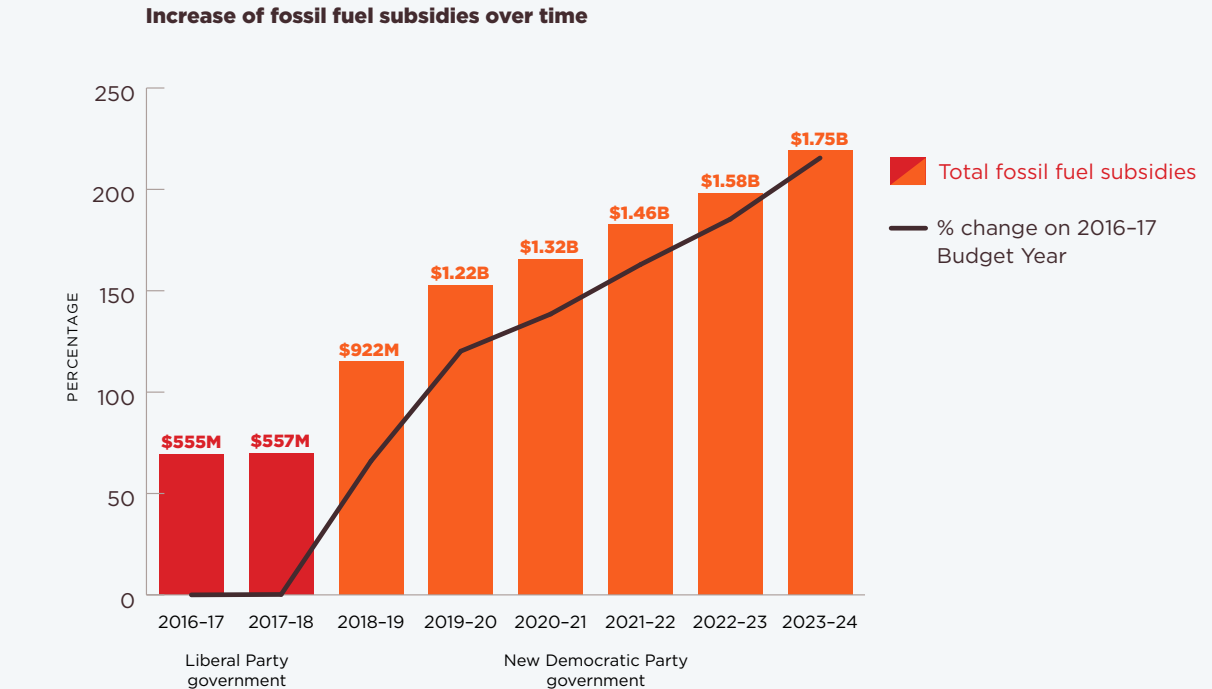


Big Bucks for Fracking

Even as Canadian governments claim their GHG-reduction policies will wean us off fossil fuels by 2050, they award even the biggest and most profitable oil and gas companies with taxpayer-funded financial benefits. While demand-side policies such as the carbon tax are meant to *decrease* the production and combustion of fossil fuels, the subsidies enjoyed by Big Oil and 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—and they have grown significantly since the BC NDP took over from the Liberals in 2017. Indeed, BC is second only to Alberta in the generosity of subsidies it gives to the fossil fuel industry, mostly to expand the production and export of fracked liquified natural gas (LNG), a dirty fuel source that is both an economic and a climate disaster.⁵

According to Premier John Horgan's 2021 government budget, fossil fuel subsidies



totaled \$1.3 billion in fiscal year 2020-21. Rather than decrease over time, these subsidies are estimated to surpass \$1.8 billion in 2023-24—more than triple what the BC Liberals spent in 2016-17.

The vast majority of these subsidies go to fracking companies via the Deep Well Royalty Program, which increased to \$421 million last fiscal year, twice what the Liberals granted in 2016-17 and 58 percent more than the Horgan government forecast a year earlier. This program provides royalty credits to companies that drill deep gas wells, usually by fracking, and will

increase to \$657 million in 2023-24, triple what the BC Liberals spent.

The second biggest publicly funded fossil fuel windfall is the so-called Clean Infrastructure Royalty Program, which encourages investment in oil and natural gas infrastructure that reduces methane leakage. This program gave \$71 million to the fossil fuel industry in 2020-21 and will almost double to more than \$135 million in 2023-24. While these subsidies might reduce emissions, they must be viewed in the context of the BC government's policy of using subsidies to increase natural gas

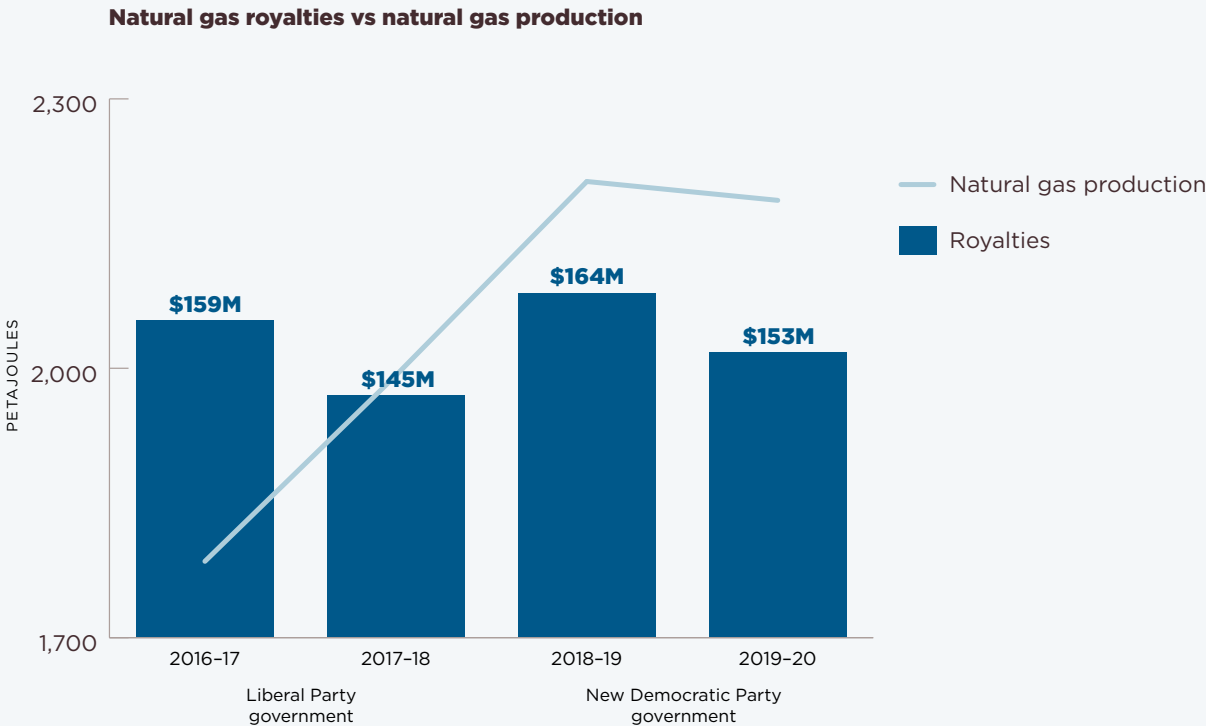
production. Even if this program is responsible for reducing the emissions intensity of some wells, overall emissions from a growing natural gas sector will continue to skyrocket, making it impossible for BC to reach its climate targets. Furthermore, this subsidy violates the polluter-pays principle and will lead to other taxpayers covering the costs of the oil and gas sector to comply with environmental laws and regulations.

Unlike Christy Clark’s BC Liberals, Premier John Horgan’s NDP government also routinely invests public funds directly in fossil fuel production, specifically \$53 million in 2020–21 to support the construction of LNG Canada’s plant in Kitimat, up from \$29 million last year.

Taking Wealth Away from Future Generations

The Deep Well Royalty Program is not just a huge tax loophole for the benefit of fracking companies, it also is creating a growing liability that has ballooned into billions of dollars because the Horgan government gives out tax credits faster than the companies can cash them in. The government’s failure to address this growing financial liability reveals that either they are completely unwilling to stand up to the fossil fuel lobby or that they are asleep at the wheel.

Originally this tax credit was enacted in 2003 by Gordon Campbell’s Liberal government to incentivize the drilling of deep and horizontal wells, which was then 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 the province producing commercial quantities of oil and gas.

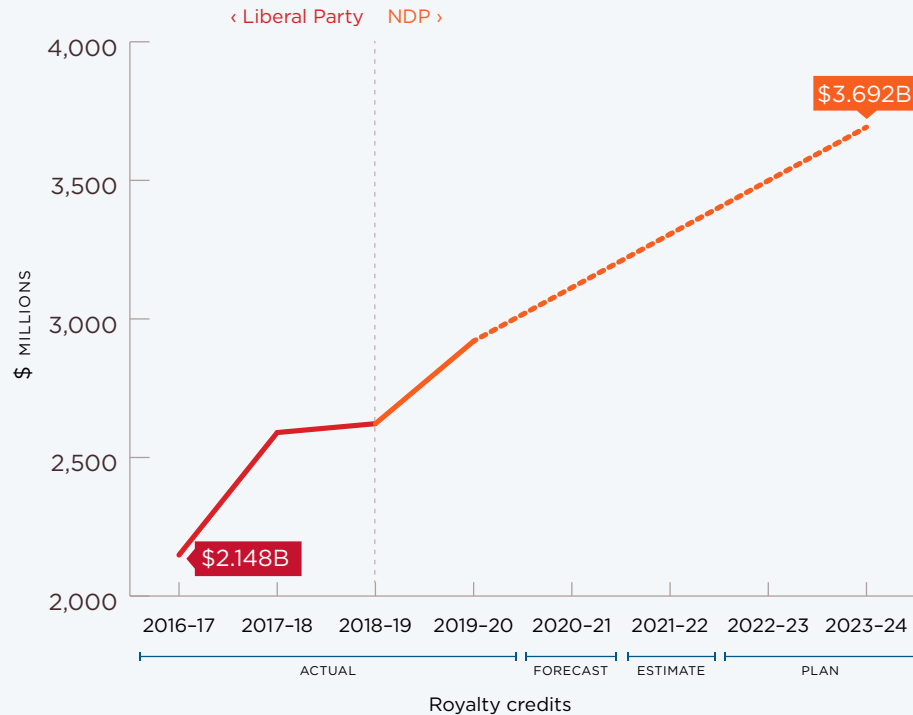


Depending on how deep a well is, it is eligible for between \$440,000 and \$2.8 million in royalty credits, which reduce the royalties payable for a producing well. Given the huge number of wells being drilled to expand fracking in BC, Deep Well royalties have created a government liability estimated to be \$3.1 billion—a fact the Horgan government attempted to downplay. This figure is forecasted to increase to \$3.7 billion in 2024. This significant liability only grows larger when compared to the measly revenues generated each year by oil and gas royalties, an annual average of only \$284 million over the last three years.

According to government information released to the Canadian Centre for Policy Alternatives, 26 companies received deep well royalty credits in 2018. The top three recipients—Encana, Painted Petroleum and Tourmaline Oil—received almost half the credits. Between 2005 and 2017 Encana donated \$1.2 million to the provincial Liberals and \$113,000 to the NDP.

Another beneficiary is Petronas Energy Canada Ltd., one of the principal partners in the planned LNG Canada export facility at Kitimat, which also benefited from discounted electricity prices, exemptions from carbon tax increases, corporate income tax breaks and deferral of provincial sales tax on construction.⁶

Growth in outstanding deep well royalty credits



These outstanding royalty credits will have to be honored by future taxpayers, reducing revenues that would otherwise be available to fund public services for future generations. “It’s basically taking wealth away from our future generations that actually should have equal rights in the benefits of this natural wealth, because you can only consume it once,” said Werner Antweiler, director of the University of British Columbia’s Sauder

School of Business Prediction Markets. “Once it’s gone, it’s gone.”⁷

During BC’s fall 2020 election campaign, the NDP committed to undertake a comprehensive review of natural gas royalty credits.⁸ Now is the time to cancel the Deep Well royalty giveaway and prevent further burdens on future generations of taxpayers.

An aerial photograph of a large industrial facility, likely an oil or gas processing plant, situated in a cleared area surrounded by dense forest. The facility features numerous storage tanks, processing units, and a network of pipes. A long, straight road or pipeline extends from the facility into the forest in the background. The foreground shows a mix of cleared land and some remaining trees with autumn foliage.

**The BC government
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Climate Implications

Premier Horgan's growing subsidies for the fossil fuel industry are a major reason the BC government has failed to meet its GHG-reduction targets year after year.

Fourteen years ago, Gordon Campbell's Liberal government set a reasonably robust goal of reducing BC's emissions by 33 percent from 2007 levels by 2020 and 80 percent by 2050. The Liberals failed to adequately reduce GHG emissions during their tenure, and the Horgan government has continued this irresponsible legacy. Emissions from BC's oil and gas industry increased 17 percent between 2015 and 2018,⁹ and this trend will continue until oil and gas subsidies are repurposed to incentivize clean energy alternatives.

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 13.4 MT CO₂e, second only to the transportation sector.¹⁰ That year, the carbon tax was \$30 a tonne, but subsidies were \$557 million, or \$41.57

Horgan's government spends more on fossil fuel subsidies than it does on its entire climate change program



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. Using subsidies from 2019–20, the BC government is paying Big Oil \$74.48 per tonne of CO₂ emitted, more than twice the amount it would have received in carbon taxes.

Meanwhile, Horgan's government spends more on fossil fuel subsidies than it does on its entire climate change program. In fiscal year 2020–21, the NDP government spent \$1.3 billion on oil and gas and only \$1.1 billion on reducing greenhouse gas emissions. The vast majority of this spending (\$802 million) is on the climate action tax credit, which offsets the impact of



**Oil and gas emissions
continue to grow at
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province combined**

carbon taxes for low to moderate income individuals and families. Meanwhile, government investment in clean transportation, energy efficient buildings and communities, clean energy innovation, and climate preparedness and adaptation is set to decrease from \$234 million in 2020–21 to \$56 million in 2022–23. This is much too low, and a fraction of what the government spends on subsidies to the fossil fuel industry. Nicholas Stern, the former Chief Economist of the World Bank and the Chair of the Grantham Research Institute on Climate Change and the Environment at

the London School of Economics, suggests every jurisdiction should be spending around 2 percent of GDP to stop runaway climate change.¹¹ By that measure, the BC Government is contributing roughly one tenth of the resources needed to confront the climate crisis.

All of these subsidies to the fossil fuel industry only make it more difficult, even impossible, for BC to honor its climate change commitments. A recent analysis found that even if the BC government meets all of its energy efficiency and clean energy goals, emissions from the highly subsidized oil and gas sector alone will be 93 percent higher — nearly double — than BC's emissions reduction target, making it impossible for BC — and therefore Canada — to meet its 2050 emission targets.¹²

The government's own December 2020 Climate Change Accountability Report, reveals that the gap to BC's legislated 2030 climate target has increased significantly, from 5.5 megatons in the 2019 report to between 7.2 and 11.2 megatons, meaning that the gap has grown from 25 percent when the government's CleanBC climate plan was first announced to as much as 44 percent. The report also shows that while other industrial sectors have reduced their emissions, oil and gas emissions continue to grow at an alarming rate and now emit more climate pollution than all other industries in the province combined.¹³

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 how little it gets back in revenues. Currently, oil and gas activity produces 20 percent of BC's emissions, but represents just 0.5 percent of jobs in the province and contributes only three percent to provincial GDP. In fact, oil and gas royalties in 2020–21 were just 22 percent of the public money the NDP government spent to prop up Big Oil and Gas. That's right: while Premier Horgan's government spent \$1.3 billion on fossil fuel subsidies last year, it took in only \$282 million in oil and gas royalties, an even lower return on investment than last year.

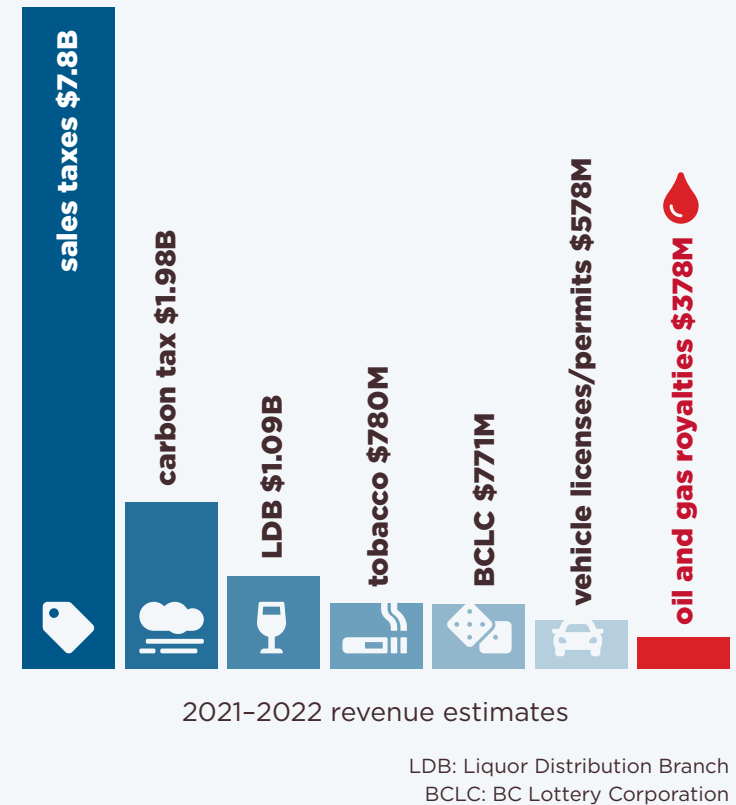
Other sectors of the economy enjoy far fewer subsidies and create more revenue than the oil and gas sector. Taxes on tobacco, for instance, consistently outpace oil and gas royalties by a margin of 300 to 400 percent each year. Motor vehicle licenses and permits provide twice the revenue that oil and gas royalties do. Water rentals and licenses, which are primarily fees paid by small hydro operators that provide low-carbon electricity, generate

just shy of \$400 million a year, a third more than oil and gas royalties.

A big part of the problem is that Horgan's NDP bean counters suffer from a pathological case of optimism bias. The NDP government consistently underestimates the costs and future liabilities of the Deep Well Royalty Program. In the last five budgets (2016/17–2020/21), BC governments have, on average, forecasted the annual growth rate of Deep Well royalty credits to be 4.8 percent. In reality, actual expenses associated with Deep Well royalty credits increased by an average of 20.1 percent a year.

Simultaneously, the provincial government also consistently overestimates the revenue from the oil and gas sector. In the last five budgets (2016/17–2020/21), BC governments have, on average, forecasted the annual growth rate of natural gas royalty revenue to be 15.7 percent. In reality, actual revenues from natural gas royalties increased by an average of just 4 percent a year. Over the same time period, the government forecasted the annual growth rate of petroleum royalty

Comparison of oil and gas royalties to other sources of revenue



While Premier Horgan's government spent \$1.3 billion on fossil fuel subsidies last year, it took in only \$282 million in oil and gas royalties

revenues to be 2.1 percent. In reality, actual revenues from petroleum royalties decreased by an average of 13.1 percent a year.

These systematic errors not only cost taxpayers money, they provide the baseless rationale that provincial decision makers use to continue subsidizing the fossil fuel sector even though it is fiscally indefensible. Ultimately the fossil fuel industry never pays back more than 25 percent of the money it gets from the public purse. As the IEA and an increasing number of investment firms make clear, its long past time to eliminate investment in, and approvals for fossil fuel projects.

The BC NDP's plan to continue increasing fossil fuel subsidies to almost \$1.8 billion in 2023-24, while simultaneously reducing investment in energy efficiency and clean energy alternatives is not only short-sighted, it threatens the future health of BC's economy.

The plan to continue increasing fossil fuel subsidies while simultaneously reducing investment in energy efficiency and clean energy alternatives threatens the future health of BC's economy



Recommendations

End fossil fuel subsidies

- Embrace the timeline set by the federal government to phase out all fossil fuel subsidies by 2025.
- Use the BC Oil and Gas Royalty Review to cancel the Deep Well Royalty Program and other tax loopholes in the province's royalty regime.
- Redirect funds from tax breaks for oil and gas to economic diversification that supports renewable energy and builds the infrastructure required to make the transition to a low-carbon economy.

Put BC back on track to meet our climate targets

- Reevaluate BC's climate plan and, in particular, whether it is still in the public interest to subsidize fossil fuel production. This analysis should be based on the International Energy Agency (IEA) *Net Zero by 2050: A roadmap for the global energy system* modeling.
 - Given that the IEA says in a 2050 net zero scenario that “no new oil and natural gas fields are required,” **stop issuing permits for new fossil fuel projects now.**
 - Given that the IEA modeling shows that LNG demand will peak before 2030 and then decline steeply, **reevaluate the province's policy of making LNG Canada “fit” into its CleanBC climate plan.**
- Rule out the use of carbon offsets or trading schemes to meet our 2030 targets.

Stronger regulations on fracking

- Make sure that fracking companies, not taxpayers, are covering the cost of cleaning up orphaned and inactive wells through legislated clean up bond requirements.
- Reduce cumulative impacts on the landscape from oil and gas operators 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 Energy, Mines and Low Carbon Innovation.
 - Increasing transparency through better public reporting on decisions made by the Commission.
 - Creating new co-management or co-governance agreements with First Nations.

Invest in a just transition now

- Use money currently going to subsidize fossil fuels to invest in northern community economic development.
- Make sure workers and communities are equipped to take advantage of new opportunities in new and growing economic sectors.
- Support regions that rely on fossil fuel extraction to plan and prepare for a just transition.

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