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**EVIDENCE**

**Tuesday, October 24, 2017**

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**Chair**

**The Honourable Kevin Sorenson**



## Standing Committee on Public Accounts

Tuesday, October 24, 2017

• (0850)

[English]

**The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)):** Good morning, everyone. This is meeting number 73 of the Standing Committee on Public Accounts, and it's Tuesday, October 24, 2017. I will remind everyone that we are televised today.

Today we will be studying “Report 7—Fossil Fuel Subsidies” of the spring 2017 reports of the Auditor General of Canada.

As our witnesses on that topic today, we're pleased to have, from the Office of the Auditor General, Mr. Michael Ferguson, Auditor General of Canada, as well as Andrew Hayes, principal. From the Department of Finance, we welcome Mr. Andrew Marsland, senior assistant deputy minister, tax policy branch, and also Maude Lavoie, director, business income tax division, tax policy branch. From the Department of the Environment, we have Mr. Stephen Lucas, deputy minister, and Mr. Derek Hermanutz, director general, economic analysis directorate, strategic policy branch. From the Privy Council Office, we have Mr. Paul Shuttle, counsel to the Clerk of the Privy Council.

I understand that the two departments have opening statements, but we will begin with our Auditor General.

The floor is yours, sir.

[Translation]

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General):** Mr. Chair, thank you for this opportunity to present the results of our spring 2017 audit of fossil fuel subsidies.

In 2009, Canada and the other G20 countries committed to phase out and rationalize inefficient fossil fuel subsidies while providing targeted support for the poorest.

Our audit focused on whether Finance Canada and Environment and Climate Change Canada supported this commitment.

[English]

Finance Canada is responsible for the tax measures covered by the commitment, while Environment and Climate Change Canada is responsible for the non-tax measures.

We asked the departments to explain how they defined the G20 commitment, particularly what is meant by “inefficient fossil fuel subsidies”, “rationalize”, and “support for the poorest”.

A clear definition is important for a couple of reasons. First, each G20 country was left to define what an inefficient fossil fuel subsidy is in the context of the country's national circumstances. Second, without a clear interpretation of the commitment, the departments cannot identify which fossil fuel subsidies are inefficient and should be considered for phase-out or rationalization.

We found that Finance Canada still had not defined what an inefficient fossil fuel subsidy was, nor could the department tell us how many inefficient fossil fuel subsidies there could be.

Finance Canada focused on certain preferential tax measures that are specific to the production or consumption of fossil fuels. We found, however, that the department did not consider a number of other potentially preferential tax measures that also applied specifically to the production and consumption of fossil fuels.

We also found that Finance Canada didn't have an implementation plan to meet Canada's 2025 deadline to identify, phase out, and rationalize tax measures that it considers to be inefficient fossil fuel subsidies.

[Translation]

Environment and Climate Change Canada's responsibility for non-tax measures began with the November 2015 mandate letter from the Prime Minister. Non-tax measures include: government grants and contributions; government loans or loan guarantees at favourable rates; government intervention in markets to lower prices; and research and development funding.

Our audit found that Environment and Climate Change Canada did not know the extent of non-tax measures that could be inefficient fossil fuel subsidies. The detailed action plan that the department provided to this committee contains timelines to identify these non-tax measures and to interpret the G20 commitment.

Until Finance Canada and Environment and Climate Change Canada complete the work we identified in the audit, we cannot provide assurance that Canada will meet its G20 commitment.

[English]

When we presented this audit for tabling in Parliament, I stated that Finance Canada didn't give us its analyses of the social, economic, and environmental aspects of the tax measures that it considered, and that we needed this information to do our work. Therefore, I wasn't able to provide Parliament or Canadians assurance about Finance Canada's work on the file.

• (0855)

This past May, the government issued an order in council that is intended to give us access to budget information. In June, we asked Finance Canada for the information that it didn't give us during the audit. A week later, Finance Canada gave us 139 pages of budget briefing notes. However, it was only this past Friday that Finance Canada gave us the other information that we asked for, including unredacted strategic environmental assessments and other documents that contain explanations, analyses of problems, or policy options.

[Translation]

In May, I indicated that we were working with the Privy Council Office to try to find a mutually acceptable arrangement to ensure that we get access to the information that we need to conduct our audits. While we have had a number of discussions with the Privy Council Office, a solution has not been reached.

We are pleased, however, to report that Finance Canada and Environment and Climate Change Canada agreed with our recommendations and have prepared action plans to address them.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

[English]

**The Chair:** Thank you very much, Mr. Ferguson.

We'll now move to the Department of Finance.

Mr. Marsland, welcome.

**Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance):** Thank you very much, Mr. Chairman.

Good morning to all.

[Translation]

I will begin my remarks with a brief overview of the role of the Tax Policy Branch. I will then say a few words about the Department of Finance's actions in relation to fossil fuel subsidies and the steps we are taking to address recent recommendations by the Auditor General of Canada.

The main responsibility of the Department of Finance with respect to taxation is to support the government in its development of federal tax policy. For the Tax Policy Branch, this involves developing, analyzing and evaluating potential tax measures or adjustments to existing measures. It also involves drafting legislation and supporting its passage through Parliament.

[English]

Our analysis is guided by sound tax policy principles, in line with the objectives of ensuring a competitive, efficient, fair, and simple tax system. The analysis, review, and evaluation of either new or existing tax measures are carried out by finance employees with in-depth knowledge of the Canadian tax system. Our systematic and thorough analysis is ultimately presented to the minister for decisions.

In supporting the government in making decisions about the implementation of the G20 commitment to phase out inefficient fossil fuel subsidies, the department took a broad approach. You may know that there is no agreed definition of "inefficient fossil fuel subsidy" among the G20 for the purposes of the commitment. In this context the department has consistently identified, as potential fossil fuel subsidies, all federal tax measures that provide preferential treatment to the sector. The list of these measures is published annually by the department, along with their costs, in our reports on federal tax expenditures, which is tabled with the main estimates.

After identifying measures that potentially fall within the scope of the G20 commitment, the department has carefully analyzed whether or not these are inefficient measures, which in our view is an expression that refers to a broad spectrum of considerations. In that respect, the department's analytical framework, which we have shared with the Office of the Auditor General, can include detailed assessments of the need for policy intervention; an assessment of the effectiveness of a measure in meeting its policy objectives; whether measures meet fundamental policy objectives, such as fairness and simplicity; whether the measures give rise to any environmental concerns; as well as other legal, social, or fiscal considerations.

Canada has made significant progress toward the G20 commitment. As the Auditor General states in his report, Canada has announced action on eight tax measures that we consider to be inefficient fossil fuel subsidies. These measures include the phase-out of the accelerated capital cost allowance for oil sands in 2007; the reduction in deduction rates for intangible capital expenses in oil sands projects; phase-out of the Atlantic investment tax credit for oil and gas and mining in 2012; phase-out of the accelerated capital cost allowance for mining; reduction in the deduction rate for pre-production mine development expenses; and allowing accelerated capital cost allowance for liquefied natural gas to expire as scheduled in 2025. Most recently, budget 2017 included the rationalization of Canadian exploration expense treatment for oil and gas, as well as the phase-out of the ability of oil and gas producers to reclassify certain development expenses as more favourably treated exploration expenses.

Before I end, I would like to thank the Auditor General for the constructive feedback provided in the report. In response to his recommendations, the department has documented the definition it uses to analyze the G20 commitment, will continue to review benchmark tax measures that are specific to the fossil fuel sector, and will, of course, continue to provide high-quality analysis to the minister with respect to the G20 commitment.

I will be very happy to answer any questions from the committee.

● (0900)

**The Chair:** Thank you very much, Mr. Marsland.

Mr. Massé, we were going to the—

**Mr. Rémi Massé (Avignon—La Mitis—Matane—Matapédia, Lib.):** I just want to make a point, Mr. Chair.

[*Translation*]

I would have really liked to have the French version of Mr. Marsland's remarks. We normally receive it before the witness makes their presentation. It is important to make sure that all documents submitted to the committee are provided in both official languages.

[*English*]

**The Chair:** Thank you for that intervention. Again, that's true. We run bilingually, obviously, where both are supplied. I guess we apologize for not getting that here soon enough.

We'll now move to Mr. Lucas from the Department of the Environment, please.

**Mr. Stephen Lucas (Deputy Minister, Department of the Environment):** Thank you, Mr. Chairman. Good morning.

I would like to start by thanking the Auditor General for the spring 2017 report and the recommendations provided to the department on fossil fuel subsidies. I welcome the opportunity to speak to these recommendations and the progress Environment and Climate Change Canada is making with regard to its role in supporting the phase-out of inefficient fossil fuel subsidies.

Mr. Chairman, as you just heard, Finance Canada has led on fossil fuel subsidies since 2009, when Canada and other G20 countries committed to phase out and rationalize, over the medium term, inefficient fossil fuel subsidies while providing targeted support to the poorest.

[*Translation*]

What is meant by “inefficient fossil fuel subsidies”? One of the challenges in implementing the G20 commitment, which Andrew highlighted, is the lack of definition around what is meant by “inefficient fossil fuel subsidies”. As he described, Finance Canada has a consistent approach in place to identify these subsidies that is specifically focused on federal tax measures.

When it comes to Environment and Climate Change Canada, we have been engaged on this file since late 2015—when the Minister of Environment and Climate Change and Finance Canada were jointly tasked with fulfilling Canada's G20 commitment in their mandate letters.

[*English*]

Like Finance Canada, we must also deal with the lack of definition around inefficient fossil fuel subsidies. We're looking at this from another angle, how to interpret the G20 commitment in terms of federal non-tax measures. These measures include budgetary expenditures on programs and services provided by the federal government.

In order to accomplish this, we are coordinating a government review of federal non-tax measures. This is a collaborative effort. We have the support of Finance Canada, and we're working with other central agencies and relevant departments.

As a first step, we worked with Treasury Board Secretariat and Finance Canada to identify programs that might support the fossil fuel sector. We started with a list of non-tax measures that had been identified by third party reports and the Commissioner of the Environment and Sustainable Development.

These measures encompassed several direct spending areas for the federal government, such as research and development programs, and we've sought feedback on these from other departments.

[*Translation*]

This spring, we established a working group with departments and central agencies.

The working group has a few objectives. One of them is to define how the G20 commitment will be interpreted in the context of Canada's national circumstances. The working group has agreed upon a framework that is consistent with Finance Canada's approach to defining inefficient fossil fuel subsidies for tax measures.

Another goal is to use this framework to assess federal non-tax measures that support fossil fuel development or consumption. This is the current focus of the working group.

[*English*]

In addition, the working group also aims to ensure that federal measures are in line with the G20 commitment to providing targeted support for the poorest. This commitment refers to fossil fuel subsidies that are aimed at reducing the impacts of poverty. The working group is focused on ensuring that adverse impacts on the poorest are considered when supporting decisions to phase out and rationalize inefficient fossil fuel subsidies. The work is ongoing, and we aim to have substantive work completed by the spring.

Canada, along with our G7 partners, has committed to phasing out inefficient fossil fuel subsidies by 2025, while other G20 countries have only committed to this over the medium term. We remain on track to do so.

Mr. Chairman, at this time I'd like to thank the Auditor General for his helpful recommendations. We're pleased with the progress the working group is making, and we're equally looking forward to its outcomes. Thank you for the opportunity to address you this morning, and I look forward to responding to your questions.

● (0905)

**The Chair:** Thank you. My understanding is that Mr. Shuttle does not have a statement yet. That's fine. You're here more for our reference.

Thank you to all for your comments.

Ms. Mendès, please, you have seven minutes.

**Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.):** Thank you very much, Mr. Chair.

[*Translation*]

I would like to thank all the witnesses for joining us this morning.

I would first like to move a motion for us to go in camera. In my opinion, several elements of the discussion are of particular interest for all parliamentarians. However, as these are sensitive elements, I think that we are entitled to hold the meeting in camera.

[*English*]

**The Chair:** We have a motion to move in camera.

[*Translation*]

**Mrs. Alexandra Mendès:** I would like the meeting to be held in camera, but with the witnesses' participation.

[*English*]

**The Chair:** We have a motion to move in camera. The motion is in order. There is no debate on the motion. According to the books that I read, once you have a motion to go in camera, the vote

proceeds immediately. She also stated that we can come back in public, I believe, when we feel that suits.

What about the people with the witnesses?

In an in camera meeting, I remind everyone, you're allowed one staff member and the audience clears out. We do have departments and different folks from those departments. Is your suggestion that we move in camera, allowing them to stay but just not be public?

**Mrs. Alexandra Mendès:** The point is that we have a very frank discussion, and yes, I think the department staff should stay, but not the public, clearly.

**The Chair:** No one from the public would be here is her intent, but staff members of the two departments can stay, and the Privy Council Office.

(Motion agreed to)

**The Chair:** We'll give them a moment to go in camera.

In fact, we will all move right now. Security is asking that we exit the building.

We're suspended.

● (0905)

\_\_\_\_\_ (Pause) \_\_\_\_\_

● (0935)

[*Proceedings continue in camera*]









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