

**GOVERNMENT OF CANADA RESPONSE TO RECOMMENDATION IN THE STANDING COMMITTEE
ON NATURAL RESOURCES REPORT:
“FEDERAL ASSISTANCE TO CANADA’S NATURAL RESOURCES SECTORS”**

The Government of Canada has reviewed the report of the Standing Committee and thanks its members for their work. The Government also wishes to extend its thanks to the numerous witnesses who gave expert testimony to the Committee, providing the members with a diversity of perspectives on Canada’s natural resources sectors.

STANDING COMMITTEE RECOMMENDATION #1: That the Government of Canada renew its support for Canada’s natural resources sectors by:

- reviewing existing and announced incentives in light of the United States *Inflation Reduction Act of 2022* and expanding those incentives as necessary;
- developing national standards and codes that encourage the uptake of low-carbon natural resources products and by-products;
- providing additional funding to consistently oversubscribed programs, such as Investments in Forest Industry Transformation;
- investing in public infrastructure necessary for assisting in the sustainable development of Canada’s natural resources ; and
- continuing to fund the research and development cycle for natural resources innovation, with an emphasis on supporting commercialization.

Government Response:

The Government of Canada agrees with this recommendation.

Canada’s Response to the United States Inflation Reduction Act of 2022

Much like Canada, international partners, including the United States, are looking to accelerate the clean energy transition and address climate change goals. The U.S. *Inflation Reduction Act (IRA) of 2022*, for example, commits significant measures for energy- and climate- related activities and actions.

Budget 2022, which preceded the announcement of the IRA, reflected Canada’s equally ambitious approach to climate action to our U.S counterparts as the following efforts illustrate:

- Budget 2022 announced the design details of a Carbon Capture, Utilization, and Storage (CCUS) Investment Tax Credit (ITC). It also announced various clean energy initiatives, including \$250 million for predevelopment work for large clean electricity projects, and \$600 million for the Smart Renewables and Electrification Pathways Program (SREPs) to support additional renewable electricity and grid modernization projects.

- The 2022 Fall Economic Statement contained measures to support Canada’s economic competitiveness, such as the Canada Growth Fund, Canadian Innovation Agency, and moving forward with a Clean Technology ITC and a Clean Hydrogen ITC.

Similarly, Budget 2023 provided \$368.4 million over three years to strengthen the contributions of the forest sector to net-zero objectives, renewing and updating five forest sector programs, and investing in data for forest carbon accounting. It also announced or strengthened various clean electricity initiatives, including a new proposed Clean Electricity ITC and \$3 billion to recapitalize SREPs, renew the Smart Grid Program, and capitalize on Canada’s offshore wind potential to support critical regional priorities and Indigenous-led projects. It also introduced an ITC for Clean Technology Manufacturing and expanded the CCUS ITC to cover more potential projects (e.g., expanding eligibility to British Columbia) and types of equipment (e.g., expanding eligibility to dual use equipment that produces heat and/or power or uses water).

Relative to the U.S. IRA, Canada is pursuing a broader mix of policy tools, including: the aforementioned tax measures; regulations (e.g., carbon pricing, Clean Fuel Regulations (CFR), and the proposed Clean Electricity Regulations); strategic finance (e.g., the Canada Growth Fund); targeted programming (e.g., the Strategic Innovation Fund - Net Zero Accelerator, Energy Innovation Program, SREPs, Clean Fuels Fund, and Investments in Forest Industry Transformation - IFIT). With respect to targeting programming, for example, the Government launched the Strategic Innovation Fund - Net Zero Accelerator in December 2020 as part of the Strengthened Climate Plan. Through this initiative and with additional funding announced in Budget 2021, the Government is investing \$8 billion over seven years to accelerate decarbonisation projects with large GHG emitters, the transition to clean technologies, and Canada’s industrial transformation across all sectors.

These federal levers are designed to help accelerate clean technology development and deployment in key areas—such as hydrogen, small modular reactors, CCUS, and value chains from critical minerals to EVs—which will help maintain Canadian competitiveness and respond to the U.S. IRA. For example, in the case of hydrogen, the Clean Hydrogen ITC directly supports low carbon hydrogen production, while the CCUS, Clean Technology, and Clean Electricity ITCs will all support the hydrogen ecosystem by reducing the costs of other aspects necessary to produce low-carbon hydrogen. Other programs that could provide financing support to hydrogen projects and across the hydrogen value chain, include the \$8 billion Strategic Innovation Fund - Net Zero Accelerator, the \$1.5 billion Clean Fuels Fund, the Canada Infrastructure Bank, or the Canada Growth Fund. Regulatory measures such as the CFR and Canada’s approach to Carbon Pollution Pricing can support the development of the low-carbon hydrogen sector by increasing demand for low-carbon solutions.

Canadian investments and funding commitments for clean energy and technology development will support continued engagement with U.S. counterparts as they seek to achieve similar goals for decarbonization and net-zero. In some instances, Canada may benefit from U.S. IRA provisions, such as those related to incentives for electric vehicles produced in North America.

However, Canada should seek to ensure that it remains competitive through continued investments in industries that will drive the country's future clean economy.

National Codes and Standards

The development of national codes and standards that encourage the uptake of low-carbon natural resources products and by-products is another important tool that will contribute to the sustainable development of Canada's natural resources.

In support of NRCan's work on codes and standards, Budget 2022 announced \$100 million in funding for the Codes Accelerator Fund aimed at accelerating the adoption of high-performance building codes, enhancing compliance rates, and building capacity for ambitious codes adoption, including net-zero emissions codes.

Canada is also developing the *Buy Clean Strategy* for federal investments to support and prioritize the use of made in-Canada low carbon products in Canadian infrastructure projects as part of its *2030 Emissions Reduction Plan*, which will support readiness of the market to meet these codes. This strategy is a shared mandate letter commitment for the Ministers of Natural Resources, Intergovernmental Affairs, Infrastructure and Communities, and Public Services and Procurement. It is anticipated that the Government will release the *Buy Clean Strategy* publicly in Spring 2024.

Regarding the forest sector, the Canadian Council of Forest Ministers endorsed the *Renewed Forest Bioeconomy Framework* in October 2022, which includes actions to support the development of voluntary product standards for biomass and bioproducts and working with standards development organizations to continue the development of supply certification programs that enable communities to leverage local biomass assets.

These measures are complemented by several NRCan's forest-related programs.

- For instance, the Forest Innovation Program (FIP), renewed in Budget 2023, supports early-stage innovation that accelerates the growth of Canada's bioeconomy through investments in research, development and technology transfer activities in the forest sector. This includes strengthening the forest sector's development and sponsorship of national standards for new bioproducts with the National Research Council of Canada (NRC) and standards associations (e.g., Canadian Standards Association).
- Similarly, the Green Construction with Wood (GCWood) program, renewed in Budget 2023, focuses on low carbon, non-traditional wood construction materials to support Canada's efforts to decarbonize the built environment. GCWood provides support for building code revisions and standards development to accelerate the transition to performance-based codes and reduce barriers for wood construction. To this end, GCWood is partnering with research organizations and academia to support revisions to the 2025 and 2030 editions of the *National Building Code* and associated standards.

With respect to the energy sector, NRCan's Energy Innovation Program (EIP) is the Government's flagship clean energy RD&D program. This program funds RD&D projects and other related scientific activities to advance clean energy technologies that will help Canada meet its climate change targets while supporting the transition to a low-carbon economy. As one of EIP's focus areas, the Government is investing up to \$3 million in hydrogen codes and standards, supporting projects that advance knowledge related to the production, transportation, storage, and utilization of hydrogen.

Canada's Hydrogen Strategy noted that harmonizing codes and standards and addressing gaps was essential to enable low-carbon hydrogen adoption and deployment. Canada has committed \$50 million in funding, through the Clean Fuels Fund, from 2021 to 2026 to support enabling research and the development of new codes and standards for clean fuels, such as hydrogen (this includes the \$3 million for the EIP).

Led by NRCan, federal departments and agencies also collaborated in the development of a *Clean Technology Regulatory Review*, with a view to addressing regulatory barriers and developing new regulatory approaches to enhance clean innovation and competitiveness. The Clean Technology Regulatory Review Roadmap was published in June 2021.

High-Demand Federal Programs

Budget 2023 proposed several measures to renew and expand key programs related to the sustainable management of natural resources.

With respect to the forest sector, there is a high demand for several programs related to this sector, including the IFIT program. IFIT was renewed in Budget 2023 for \$139 million over three years. This program supports Canada's forest sector in becoming more competitive, resilient, and environmentally sustainable through targeted investments that accelerate the adoption of innovative technologies and products such as bioenergy, bioplastics, biochemicals, and next generation building materials. Through renewal, it has expanded to include projects related to industrial decarbonization and improved utilization of low value waste fibre, among others.

Other high demand forest sector programs include the GCWood program and Indigenous Forestry Initiative (IFI). Through its 2023 renewal of \$38 million over three years, the GCWood program expanded its focus to fund the demonstration projects related to building design, innovative building systems/technologies for wood construction, and the use of advanced building bio-products in new and existing buildings to help reach Canada's net zero commitments. The 2023 renewal of the IFI (\$17.6 million over three years) came with a mandate to expand support beyond economic development to a broader range of Indigenous-identified priorities. Additional eligible activities include Indigenous Knowledge and science projects as well as Indigenous leadership and participation in forest stewardship opportunities.

Several energy-related programs have also been established or renewed in recent years, reflecting strong stakeholder interest. Two illustrative efforts are the EIP and Wah-ila-toos (Clean

Energy in Indigenous, Remote and Rural Communities Initiative). For instance, Budget 2021 announced new funding under the EIP to focus on CCUS. The 2022 Fall Economic Statement further announced the renewal and consolidation of the Clean Growth Program and the Impact Canada Cleantech Initiative under EIP, nearly doubling annual funding. Budget 2021 provided \$300 million over 5 years to NRCan and the Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) to continue to support the clean energy transition in communities reliant on fossil fuels for heat and power.

Wah-ila-toos includes the Clean Energy for Rural and Remote Communities (CERRC) program which provides funding for renewable energy and capacity building projects and related energy efficiency measures in Indigenous, rural and remote communities across Canada. However, access to capital remains a key barrier for remote and Indigenous communities resulting in significant demand for government funding that has outstripped existing funding.

Public Infrastructure

The clean energy transition will require investing in public infrastructure. Considering this need, especially in the clean energy area, Budget 2023 enabled the Canada Infrastructure Bank to invest up to \$20 billion in clean electricity and green infrastructure projects.

The mining and processing of critical minerals is another area that will benefit from additional public infrastructure investment. As part of the \$3.8 billion provided for the implementation of the *Canadian Critical Minerals Strategy* in Budget 2022, \$1.5 billion over seven years was included for infrastructure investments that would support the development of critical minerals supply chains. Budget 2023 allocated this infrastructure funding to NRCan to launch the Critical Minerals Infrastructure Fund (CMIF) – a new grants and contributions program, announced on October 31, 2023.

The CMIF will target gaps in clean energy and transportation infrastructure necessary to develop and expand production of Canada's critical mineral resources, drive emissions reductions in critical mineral operations through electrification, and advance Indigenous reconciliation by supporting participation of Indigenous peoples to ensure benefits of infrastructure and mining projects flow back to communities. The CMIF integrates the Canada Infrastructure Bank as a key element in the program design. To ensure federal funding is used where it is most needed, applications will be co-reviewed by the Canada Infrastructure Bank for assessment of private investment potential and the Bank's participation as a financing partner.

Innovation

Innovation is essential to the sustainable development of all Canada's natural resources sectors. The Government of Canada advances natural resources innovation through a suite of levers, which include funding various organizations (e.g., industry, research organizations); conducting world-class research at federal laboratories; collaborating with domestic and international partners to spur private sector investment and adoption; working to align regulations, codes

and standards; developing clean technology policy; and providing technical and policy expertise to support industrial decarbonization.

Since 2016, the Government of Canada has made significant investments to strengthen Canada's natural resources innovation ecosystem, with a focus on clean technology to support the competitiveness of the natural resources sectors as well as its transition to net zero economy. To build on these efforts, Budget 2023 included private and public measures to support investments, research and development (R&D), deployment and adoption. Highlights include: additional Strategic Innovation Fund funding to support the development and application of clean technologies in Canada; investment tax credits for clean technology manufacturing and clean electricity; and recapitalization of funding programs for renewable energy, electrification, smart grids, and sustainable forestry. In addition, a new Crown corporation, the Canada Innovation Corporation, will be established with a mandate to increase Canadian business expenditures on R&D across all sectors and regions of Canada.

In relation to the energy sector, NRCan's Office of Energy Research and Development (OERD) leads the Government's efforts on energy innovation policy and programming. Since 2017, OERD has invested in thirteen federal departments and agencies as well as Canadian small and medium enterprises, utilities, industry, and other firms; and designed and delivered programs totalling more than \$1 billion to support Canada's energy innovation. The EIP will help to de-risk and improve cost and performance of existing technologies to help to meet Canada's 2030 climate goals, while accelerating the readiness of pre-commercial technologies and enable energy system transformations required for Canada to achieve its 2050 net-zero goals.

NRCan also supports Canada's forest sector innovation through programs renewed in Budget 2023.

- For instance, the FIP provides funding to FPIInnovations, a private not-for-profit organization that specializes in forest sector R&D and bioproduct advances, and that is a key component of the country's forest innovation system, with research labs in Quebec and British Columbia.
- Another example is the IFIT program, which has supported the commercialization of products such as cellulose nanocrystals and lignin (renewable carbon substitutes for petroleum-based materials).

NRCan's forest sector programs complement each other as illustrated by the advancement of the commercialization of Cross-Laminated Timber (CLT), a low-carbon construction material. FIP helped publish a technical handbook on CLT and a contribution from IFIT supported a pilot to manufacture CLT panels. GCWood then contributed funding for a demonstration of several CLT office buildings in Canada and supported updating of building codes for the broader adoption of low-carbon, wood-based building materials, including CLT. The use of CLT could lead to an estimated 75 percent reduction in GHG emissions compared to other carbon intensive building materials.

Regarding the mining sector, Canada's *Critical Minerals Strategy* takes a full value chain approach to the development of critical minerals – from exploration to recycling – for the green and digital economy with opportunities for all regions of the country. Released in 2022 and backed by nearly \$4 billion in funding under Budget 2022, the Strategy builds on previous Budgets as well as the collaborative framework of the *Canadian Minerals and Metals Plan*, which includes principles on leading science, engineering, and innovation to advance the competitiveness of the entire minerals and metals sector. Funding to support innovation and R&D under the Critical Minerals Strategy include: \$1.5 billion for new critical mineral projects, with a focus on mineral processing, materials manufacturing and recycling applications under ISED's Strategic Innovation Fund; \$79.2 million for public geoscience and exploration to better identify and assess mineral deposits; \$47.7 million for NRCAN to conduct targeted upstream critical mineral R&D through Canada's research labs (under Budget 2021); \$144.4 million for NRCAN and the NRC for critical mineral R&D, and the deployment of technologies and materials to support critical mineral value chains; and \$24.3 million under the Strategy's Global Partnerships Initiative for NRCAN scientific capacity to undertake international joint research and for demonstrating Canadian technologies applied abroad. In addition, complementing the Strategy, Budget 2023 proposes a new Clean Technology Manufacturing Investment Tax Credit equal to 30 per cent of the cost of investments in new machinery and equipment used to manufacture or process key clean technologies, and extract, process or recycle key critical minerals. This tax incentive will help spur the expansion of mining and processing of critical minerals, making more raw materials available for clean technologies such as batteries, rare earth magnets for electric vehicles, and solar panels.

NRCAN is also an active participant in the Innovative Solutions Canada Testing Stream, which enables participating federal departments to buy and test pre-commercial goods and services from Canadian companies in a real-life setting. This program leverages government partnerships to test the innovations and provide the companies with valuable feedback before the innovation is launched into the marketplace. Over the past few years, NRCAN has tested numerous natural sector innovations, including an aerial base early landslide detection system and a novel portable energy generator for slow moving water.

Finally, NRCAN is working to address the emerging needs of Canada's cleantech ecosystem by exploring opportunities to accelerate the development and adoption of digital solutions in the natural resources sectors.

STANDING COMMITTEE RECOMMENDATION #2: That the Government of Canada work to reduce uncertainty for investors in natural resources sectors by:

- **working with other governments and regulators across Canada to streamline approval and permitting processes for natural resources projects; and**
- **deepening its engagement with Indigenous peoples, industry, workers and affected communities during the policy development process.**

Government Response:

The Government of Canada agrees with this recommendation and recognizes the need to make project approvals more efficient and strengthen Canada's attractiveness as a first-choice investment destination for natural resources projects. Collaboration with Indigenous Peoples, industry, workers, and affected communities is essential to enhancing a rigorous regulatory and permitting environment during the lifecycle of natural resources projects.

For improving the efficiency of Canada's approval and permitting processes for natural resources projects, in collaboration with other governments and regulators, the federal government is implementing a series of supportive actions, including leveraging regional collaboration mechanisms and creating efficiencies in the impact assessment process.

Additionally, actions are already being implemented with a view to deepening engagement with Indigenous Peoples, project-affected communities, and other stakeholders. These include engaging Indigenous communities to update guidelines for federal officials to fulfill the Crown's Duty to Consult, and improving Modern Treaty implementation and engagement supports.

Improving Approval and Permitting Processes for Natural Resources Projects through Collaboration with Other Governments and Regulators

Regional Approaches

The Regional Energy and Resource Tables (Regional Tables) bring the federal government together with individual provinces and territories, in collaboration with Indigenous partners and with input from national labour and industry groups, think tanks and other key stakeholders, to advance the top economic priorities in the energy and resources sectors in each of Canada's regions. This initiative will help to align resources and timelines across all levels of government, and better coordinate regulatory and permitting processes. One of the objectives is to provide Canadian businesses, entrepreneurs, investors, and others with even greater clarity from all levels of government to confidently invest the capital and expertise that spurs national growth and international competitiveness.

For example, as part of the British Columbia Regional Table, Canada, the province and First Nation partners have agreed to collaborate on creating innovations in regulatory and permitting processes that will result in faster decisions, aligned with both British Columbia and Canada's clean growth objectives. In the coming months, partners will be working collaboratively to identify potential projects to ground-truth these innovations, assess their effectiveness at clarifying and reducing timelines, mitigate inefficiencies, and improve engagement and partnerships.

Working with partners and stakeholders early and taking a tailored approach to Indigenous engagement ensures Indigenous perspectives are integrated at the outset and helps to advance economic reconciliation by respecting the spirit and intent of the *United Nations Declaration on the Rights of Indigenous Peoples Act* (UNDA). This also helps ensure that Indigenous groups are

true partners in natural resources projects, and through meaningful engagement, can work with investors and proponents to advance projects and priorities of mutual benefit.

As for additional efforts in Northern Canada, the Canadian Northern Economic Development Agency contributes to the efficiency, predictability, and transparency of the territorial regulatory processes through its Northern Projects Management Office. This is done by coordinating federal departmental participation during environmental assessment processes; convening and providing issues management support to Indigenous people, industry, workers, and affected communities during environmental assessment and regulatory review processes; and coordinating and maintaining the Crown consultation record for major projects in the territories.

Efficient and Effective Impact Assessment Processes

Building Canada's clean economy will require significant and sustained private sector investment in major natural resources projects. Ensuring the timely implementation of these projects is essential. In the past year, the federal government has taken action to make Canada's rigorous regulatory process more efficient. This includes \$1.3 billion over six years, starting in 2022-2023, and \$55.4 million ongoing, to the Impact Assessment Agency of Canada and twelve other federal departments to continue to improve the efficiency of assessments for major projects.

Budget 2023 also committed the Government to develop a concrete plan to improve the efficiency of the impact assessment and permitting processes for major projects. The Ministerial Working Group on Regulatory Efficiency for Clean Growth Projects will oversee this work. Its mandate is to coordinate government efforts to grow the clean economy and meet net-zero commitments by ensuring an efficient regulatory framework to support the development of clean growth projects.

The IAAC has been actively working on several efficiency enhancements that will complement the broader Government plan. These include further scoping of assessments; providing guidance on the potential for the integration of permitting information requirements into the impact assessment process to save time post-assessment; providing further guidance to proponents on Indigenous consultation; and advancing regional assessments.

On October 13, 2023, the Supreme Court of Canada rendered its opinion on the constitutionality of the *Impact Assessment Act*. The Government accepts the Court's opinion, which provides clarity and direction to develop amendments to the impact assessment legislation to ensure it meets Canadians' needs and values. A re-focused Act will allow for more efficient assessments and the Government will work quickly to amend the legislation through Parliament.

Regarding the mineral sector, Budget 2023 announced \$10.6 million for NRCan's Critical Minerals Centre of Excellence for multiple initiatives, including providing direct assistance to

critical mineral developers in navigating federal regulatory processes and government support measures.

Deepening Engagement with Indigenous Peoples, Project-Affected Communities and Stakeholders

Partnership and collaboration with Indigenous Peoples, industry, workers, and affected communities is essential to enhancing a rigorous regulatory and permitting environment during the lifecycle of natural resources projects. For example, Budget 2022 allocated \$27.9 million over a two-year period, beginning in 2022-23 to NRCan for the Indigenous Advisory and Monitoring Committees of the Line 3 and TMX pipelines. This funding aims to empower Indigenous communities to identify shared priorities and offer well-informed advice on these projects. The Canada Energy Regulator (CER) also got \$45.8M over six years (off-cycle 2022 decision), beginning in 2022-23, to renew its role as a lifecycle regulator of energy infrastructure projects with specific support included for the participant funding contribution program, role renewal with Indigenous Advisory and Monitoring Committees and new net-zero modelling work.

Enhanced Tools and Guidance on the Federal Duty to Consult

Through the Federal Initiative on Consultation, CIRNAC supports Indigenous groups in developing consultation protocols and resource centers that will equip them to respond to consultation activities. This approach enhances project scoping in natural resources projects, strengthens early relationships with Indigenous groups, streamlines project approvals, and fosters a unified government response to Indigenous rights impacts during project development.

Released in 2008 and updated in 2011, the *Federal Consultation Guidelines* offer practical advice to federal departments on recognizing and fulfilling the Crown's duty to consult. In line with the goal of enhancing a unified, efficient government approach to consultation, Budget 2023 provided \$11.4 million over three years to CIRNAC for updating these guidelines through engagement with Indigenous communities.

This will support the implementation of the UNDA and provide more clarity on how the government will proceed to ensure an effective and efficient whole-of-government approach to consultation and accommodation.

Impact Assessment as a Decision-Making Tool

Likewise, the IAAC has invested in strengthening its relationships with Indigenous Peoples through consultation and engagement, and by providing essential funding and support for their communities to participate meaningfully in assessments, to ensure that Indigenous considerations are fundamental in policy development and decision-making. These efforts help to raise awareness about impact assessments, foster project certainty and mutually beneficial

outcomes for proponents and Indigenous groups, and advance Canada's reconciliation objectives in natural resources development.

The IAAC undertakes a collaborative approach to the development of regulations and policies relating to Indigenous Peoples. The IAAC has bilateral relationships with National Indigenous Organizations, which provide advice on engagement and opportunities for continued dialogue on policy collaboration. The IAAC also works closely with an Indigenous Advisory Committee, which is distinctions-based and provides advice for the development of key policies and guidance. Over the last five years, the Committee has focused on Indigenous Knowledge, collaboration and assessing Impacts on Rights Guidance for proponents. Additionally, the IAAC works with Indigenous organizations (e.g., First Nations Major Projects Coalition (FNMPC), Institut de développement durable des Premières Nations du Québec et du Labrador, Chiefs of Ontario, MétisMétis Nation of Alberta) and communities to receive regional perspectives on key policy products. Funding is provided to all right-holders and interested Indigenous groups to review and engage in policy review through the IAAC's Policy Dialogue Program.

The IAAC also provides funding for assessments of designated projects to support Indigenous consultation at key stages of the assessment process, which includes the planning phase and the implementation of follow-up programs. The IAAC's Indigenous Capacity Support Program provides funding to support the development of capacity so that Indigenous Peoples are prepared to meaningfully participate and increasingly take on leadership in project environmental and impact assessments; regional and strategic assessments; and environmental and impact assessment follow-up activities. The Program has supported over 50 Indigenous partners, many with multi-year agreements with over \$9 million in contribution agreements.

Recently approved projects, such as the Cedar LNG project in British Columbia and Marathon Palladium in Ontario, demonstrate the benefits of meaningful engagement and consultation in project development and impact assessment processes. The IAAC worked closely with Indigenous groups and federal partners in the development of federal conditions for the projects.

Modern Treaty Implementation and Engagement Supports

Section 35(1) of the *Constitution Act* (1982) affirms and recognizes treaty rights of Aboriginal peoples of Canada. Accordingly, the Government recognizes the unique rights that Modern Treaty Partners have and is developing pathways for deepening engagement on natural resources governance with these rights-holders. Modern Treaty rights include land ownership, access to resource development opportunities, and participation in land and resources management decisions, which leads to greater predictability in land rights, fostering of economic development opportunities, and achieving greater self-reliance. Modern Treaties and Self-Government agreements establish law-making powers and provide Indigenous governments the authorities to develop and deliver programs and services that are tailored to the unique needs of their communities.

Canada is committed to meeting its obligations under Modern Treaties and to fully embody true nation-to-nation, government-to-government and Inuit-Crown relationships with Indigenous Modern Treaty partners. Ancillary benefits of Modern Treaties include a more predictable governance regime that creates a more stable climate for investment and promotion of broader economic and policy objectives to the benefit of all Canadians.

Canada's *Collaborative Modern Treaty Implementation Policy* was approved in February 2023 and recognizes that Indigenous Modern Treaty partners have a distinct expression within a distinctions-based approach to Reconciliation, holding a special, constitutionally entrenched relationship with the Crown. This policy has several important implications for deepening federal engagement and consultation practices with treaty partners, including provisions regarding engaging these partners in early stages of legislative, policy and program design so that their unique circumstances are considered and respected.

Canada is moving forward with a 'predictability approach' to Modern Treaties. This approach sets out partners' intentions to implement pre-existing rights through their treaty in a predictable way with sufficient flexibility to allow for the evolution of rights over time. Using this approach, rights outlined in treaties are not exhaustive. This approach also applies to existing treaties; Canada can amend existing agreements to incorporate recognition and predictability. Modern Treaties also provide clarity as to when the Duty to Consult is triggered.

Another way CIRNAC supports Indigenous engagement in policy development is by maintaining information systems like the Aboriginal and Treaty Rights Information System (ATRIS) and providing guidance to federal officials on Indigenous engagement, consultation, and accommodation. They collaborate with federal, provincial, and territorial partners and work with Indigenous communities to integrate their knowledge into ATRIS.

Similarly, Budget 2022 destined \$40 million to CIRNAC to support northern regulatory processes, as part of the Critical Minerals Strategy to streamline and accelerate the permitting of natural resources project in the North starting in 2022-2023.

Finally, with respect to the mining sector, Canada's *Critical Minerals Strategy* recognizes the importance of Indigenous economic participation in critical minerals development and downstream processing that will enable clean technology advancement and next-generation jobs. Budget 2022 allocates \$103.4 million to advance economic reconciliation through enhanced readiness to meaningfully participate in the natural resources sectors, including at least \$25 million to support Indigenous participation and early engagement in the Critical Minerals Strategy. Funding is available through the Indigenous Natural Resource Partnership Program which funds activities that help increase the economic participation of Indigenous Peoples in natural resources projects, including in critical minerals. The Program is accessible to Indigenous communities, businesses, and organizations.

STANDING COMMITTEE RECOMMENDATION #3: That the Government of Canada facilitate Indigenous equity ownership of natural resources projects by:

- **creating a dedicated funding envelope to support Indigenous knowledge-gathering about natural resources on their lands;**
- **partnering with First Nations, Métis, and Inuit communities to draw on and integrate Indigenous expertise about responsible natural resource extraction on their lands into government supports for various natural resource projects;**
- **developing a new national benefits sharing framework to ensure that First Nations and Métis peoples directly benefit from major resource projects in their territories and Inuit communities benefit from major resource projects in Inuit Nunangat; and**
- **developing financing solutions tailored to the needs of Indigenous governments, businesses and communities, such as loan guarantees and low-interest loans for investments in natural resources projects.**

Government Response:

The Government of Canada agrees with this recommendation. Canada recognizes the importance of Indigenous leadership in natural resources and the need for Indigenous groups to directly benefit from natural resources projects in their territories. The Government also acknowledges that advancement of economic reconciliation means deepening relationships and partnerships with First Nations, Métis, and Inuit communities to support their participation in, and ownership of, natural resources projects.

Federal activities in line with the principles of this include commitments to economic reconciliation; integration of Indigenous knowledge in resource development; a framework for benefit sharing with Indigenous communities and stewardship and novel financial arrangements.

Economic Reconciliation Framework

Canada has committed to developing a distinctions-based Economic Reconciliation Framework co-developed with Indigenous partners under the *UNDA Action Plan (2023)*. Budget 2023 provided \$5 million in 2023-24 for this initiative, which aims to support Indigenous Peoples in various economic aspects, ensuring their participation, access, and development within Canada's economy. This initiative aligns with the principles of self-determination at the core of the *UNDA*. By reshaping the way agendas are set and decisions are made, Canada aims to redress the historical undermining of Indigenous economies. Economic reconciliation also seeks to empower Indigenous Peoples to control their economies, allowing them to pursue their visions for economic prosperity.

NRCan is also partnering with First Nations, Métis, and Inuit communities to advance economic reconciliation under the Pan-national Canadian Minerals and Metals Plan. These include a Pan-Canadian Initiative focused on increasing Indigenous local procurement and business activities to generate long-lasting business and socio-economic opportunities through the exploration and mining sector. Additional actions include capacity building products to increase knowledge of exploration and mining activities, development of tools and guidance for both industry and

Indigenous communities and research studies to identify barriers to entry (particularly for women) and skills development. These actions were identified based on a co-developed Report on Advancing Indigenous Participation and a National Forum with Indigenous Peoples on the future of mining in Canada.

In partnership with Indigenous groups, provinces and territories and industry, collaboration in these and other initiatives under the Plan, is helping to support economic reconciliation by advancing Indigenous Peoples' active participation in the minerals and metals sector. This has helped to generate jobs and wealth that can improve health outcomes, open new possibilities for entrepreneurship and contribute hope for a young and fast-growing populations. These outcomes will also help to directly address social and environmental inequalities identified in the Sustainable Development Goal on Reduced Inequalities.

Budget 2023 also provided \$800 million in funding over seven years for large, Indigenous-led conservation. The purpose of these conservation projects is to advance Indigenous self-determination and reconciliation through support for large-scale Indigenous-led conservation partnerships that will build on the Enhanced Nature Legacy and Marine Conservation Targets to protect 25 per cent of Canada's terrestrial and marine areas by 2025 and 30 per cent by 2030. This Project Finance for Permanence model brings together Indigenous organizations, governments, and the philanthropic community to identify and work towards shared goals for protecting nature, including support for Indigenous knowledge-gathering about natural resources in their territories. Additionally, in May 2023, the Minister of Energy and Natural Resources committed \$40 million to support provincial and First Nations activities related to Ontario's Ring of Fire mineral region, including feasibility and sustainability studies, as well as economic analysis and capacity initiatives.

Integrating Indigenous Knowledge

Moreover, and since time immemorial, Indigenous communities have occupied and used the land within Canada sustainably, utilizing its vast resources to build vibrant and dynamic economies. Therefore, integrating Indigenous knowledge is essential to advancing the best available science and knowledge in support of transformative change. Responsible natural resources extraction requires integrating Indigenous expertise into government supports for projects to ensure sustainability and enrichment for future generations.

To support Indigenous knowledge-gathering about natural resources in their territories, the Government leads several initiatives to support Indigenous-led environmental protection and conservation measures which include the Indigenous Guardians, to support environmental protection through Indigenous-led governance; the Indigenous-Led Area-Based Conservation, which provides funding for the implementation of conservation measures; and the Indigenous Protected and Conserved Areas (IPCAs), or another preferred term (e.g., Inuit Protected Area) where Indigenous governments have the primary role in protecting and conserving ecosystems through Indigenous laws, governance, and science.

Indigenous Natural Resources Partnerships and National Benefit Sharing Framework

To strengthen relationships with Indigenous partners, as part of Budget 2022, the Government of Canada allocated \$103.4 million over five years to renew and expand the Indigenous Partnerships Office (IPO) and the Indigenous Natural Resource Partnerships (INRP) Program to all regions of Canada, including 3.4 million for engagement related to the National Benefits Sharing Framework. Of this, Budget 2022 also allocated at least \$25 million to support Indigenous participation and early engagement in the Critical Minerals Strategy. The IPO is comprised of dedicated resources for place-based community engagement, resolute on-the-ground partnership approach that focuses on understanding, addressing, and advancing Indigenous economic and policy development. The IPO serves as a conduit for long-term, sustained relationships with Indigenous partners to unlock opportunities and expertise across all NRCan sectors and continues to raise the bar for meaningful Crown-Indigenous engagement. Through a renewed and expanded IPO and INRP, NRCan will continue to support the development of a sustainable and inclusive natural resources sectors, accelerate the net-zero transition, and advance economic reconciliation and meaningful partnerships with Indigenous communities across Canada.

Budget 2023 committed an additional \$8.7 million to the National Benefit Sharing Framework (NBSF). The Government will continue to explore, through engagement on the NBSF, additional federal supports to increase access to capital for Indigenous groups to invest in major resource projects. Early engagement on the Framework highlighted the challenges and opportunities that Indigenous groups face in accessing affordable capital, building capacity, participating in inclusive natural resources sectors, and forging strong partnerships with industry and governments. Through further engagement on the NBSF, the Government will continue to explore how to better support Indigenous groups in obtaining benefits from major projects and other federal supports to increase access to affordable capital for Indigenous groups to invest in natural resources projects. This also includes ensuring resource development is safe and secure for Indigenous women, girls and 2SLGBTQQIA+, consistent with Measure #12 of the UNDA Action Plan.

Novel Financing Solutions

Budget 2023 also announced that the Canada Infrastructure Bank will provide loans to Indigenous communities to facilitate their ability to purchase equity stakes in infrastructure projects in which the Bank is also investing. The Government is further collaborating with the Canada Infrastructure Bank, Indigenous partners, and private investors to finance infrastructure that unlocks mineral deposits required for the green and digital economy.

Similarly, enabling greater Indigenous participation in, and ownership of, clean electricity projects is an objective of the Smart Renewables and Electrification Pathways program. So far, the program has supported 41 Indigenous-owned projects, contributing a total of \$853 million.

In relation to the forestry sector, Canada announced investments of \$16.6 million over three years, starting in 2023, for the renewal of the Indigenous Forestry Initiative (IFI) with an expanded mandate. The program now supports not only economic reconciliation, but other priorities communities have in relation to forests, including forest stewardship and knowledge development through contribution funding, and has the authority to quickly deliver funding to Indigenous communities through grants to support inclusion of Indigenous knowledge in forest management planning.

STANDING COMMITTEE RECOMMENDATION #4: That the Trans Mountain Corporation review the toll structure of the Trans Mountain Expansion Project and propose modifications to the toll structure as necessary to reduce the risk to taxpayers.

Government Response:

The Government of Canada takes note of this recommendation.

The Trans Mountain Corporation (TMC) is a Crown corporation incorporated under the *Canada Business Corporations Act*. It is a wholly owned subsidiary of Canada TMP Finance Ltd., which in turn is a wholly owned subsidiary of the Canada Development Investment Corporation (“CDEV”). Accordingly, TMC is an independent entity and operates at arms-length from the Government of Canada. CDEV is a federal crown corporation incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. CDEV is an agent Crown corporation.

The capacity of the Trans Mountain Expansion Project (TMEP) is primarily committed to shippers representing a mix of Canadian and international producers and refiners who are contracted for 80 per cent of the available capacity under long-term, take-or-pay transportation contracts for 15 and 20 years. The remaining 20 per cent of the capacity on the expanded system will be available through market mechanisms.

The existing commercial agreements between TMC and shippers mitigate the extent to which increased costs are borne by taxpayers. Under these long-term contracts, certain construction costs are “uncapped”, and increases are passed through to shippers via tolls. Underpinned by these long-term contracts, TMC is expected to generate earnings before interest, taxes, depreciation, and amortization (“EBITDA” - earnings before interest, taxes, depreciation and amortization) of more than \$2.4 billion per year once the TMEP is in service.

TMC operates under the jurisdiction of the CER. The CER regulates the tolls (the price charged for service) and tariffs (the terms and conditions of service) of pipeline companies under its jurisdiction, to ensure that tolls are just and reasonable, and that there is no unjust discrimination in tolls or services. A pipeline company cannot charge a toll unless it is included in a tariff filed with the CER or approved by a Commission order. The CER aims to have tolls set to cover a company’s cost of service, including a fair and reasonable return to pipeline investors.

In 2012, the CER approved the current methodology for calculating tolls for the TMEP. The CER did not approve any actual toll rates as the construction costs were still unknown. The approved toll methodology has a fixed and variable component: the fixed component is a function of the construction costs for the project and is split between “uncapped” (around 25 per cent) and “capped” (around 75 per cent) costs. Uncapped costs include certain technically challenging spreads, Indigenous consultation and accommodation costs, community benefit agreements, and the cost of pipe materials. Uncapped cost increases are passed through to the calculation of tolls. All other construction costs are capped. Increases in capped costs are not passed through to the calculation of tolls. The variable component is a function of annual costs incurred by TMC, such as power costs, regulatory orders, revenue sharing, shipper requested program/facilities, etc.

Based on this methodology, the committed shippers signed long-term, “take-or-pay” shipping contracts with a length of 15-20 years. These contracts, subject to approval of tolls by the CER, provide a high degree of certainty on the expanded pipeline’s future cash flows.

The toll methodology as it stands, specifically the variable component and the “uncapped” portion of the fixed component, helps to mitigate the extent that increased costs are borne by taxpayers. Some of the risk is instead borne by the committed shippers who will benefit from the construction and operation of the expanded pipeline system.

On June 1, 2023, TMC filed its application with the CER for interim tolls on the expanded system. Pipeline tolls are the price charged by a pipeline company for transportation and other services. With the project nearing completion, the CER must approve TMC’s interim tolls before service can begin on the expanded system.

On August 1, 2023, the CER outlined a two-step process for its review of TMC’s interim tolls application, balancing the need to ensure that the proposed tolls are just and reasonable while still intending to not delay the pipeline’s operational start date. In the first step, the CER will focus on a narrower set of issues around whether the tolls are just and reasonable. The CER anticipates that it will make a preliminary decision on interim tolls in Fall 2023. The second step will consider broader issues that arise from the application. The interim tolls are not final and will be “trued up” once a final auditing of project costs is completed in 2025.

The federal government acquired TMC and the Trans Mountain Expansion Project in 2018 because it knew it was a serious and necessary investment—one that is in the national interest and will make Canada and the Canadian economy more sovereign and more resilient. As committed to Canadians in 2022, no additional public money will be invested in this project as construction is completed. The federal government does not intend to be the long-term owner of the project and a divestment process will be launched in due course.

STANDING COMMITTEE RECOMMENDATION #5: That the Government of Canada provide greater transparency about fossil fuel subsidies by:

- **publishing its definition of fossil fuel subsidies;**

- **publishing its definition of what constitutes an inefficient fossil fuel subsidy;**
- **publishing annual data on Canada’s fossil fuel subsidies, including those subsidies that are considered inefficient and those that are aligned with the Government of Canada’s policy objectives; and**
- **publishing regular progress reports on the Government of Canada’s work to fulfil its commitments to eliminate inefficient fossil fuel subsidies and public support for the fossil fuel energy sector.**

Government Response:

The Government of Canada agrees with this recommendation in principle.

Addressing inefficient fossil fuel subsidies supports Canada’s efforts to act on climate change and transition to a low-carbon economy. Eliminating inefficient fossil fuel subsidies enables the Government of Canada to provide greater support for clean technology and work across the economy to reduce emissions.

On July 24, 2023, the Government of Canada announced the publication of the Inefficient Fossil Fuel Subsidies Self-Review Assessment Framework and Guidelines, delivering on the Government’s G7 and G20 commitments to phase out inefficient fossil fuel subsidies. As part of the Assessment Framework and Guidelines, the Government of Canada has developed a definition for both “fossil fuel subsidy”, and “inefficient”. Canada is the first country to release a rigorous analytical framework that includes a definition of “inefficient”. This will ensure that all subsidies that disproportionately benefit the fossil fuel sector or support fossil fuel consumption meet strict conditions.

Under the Assessment Framework, a measure is deemed a “fossil fuel subsidy” if it meets two conditions: it disproportionately benefits the fossil fuel sector, solely supports fossil fuel activities, or supports fossil fuel consumption; and it is considered a subsidy, as set out in the Assessment Framework.

The Assessment Framework defines a subsidy by reference to the World Trade Organization’s definition of a subsidy as set out in the Agreement on Subsidies and Countervailing Measures, which broadly defines a subsidy as a financial contribution by a government or a form of income or price support that confers a benefit to the recipient. This only includes subsidies provided by the federal government and does not include measures that reflect a normal treatment (i.e., where the Government has a standard way that it treats all businesses and industries with respect to tariffs or duties).

All measures identified as “fossil fuel subsidies” are deemed “inefficient” unless they meet at least one of the following criteria:

- 1) Enable significant net GHG emissions reductions in Canada or internationally in alignment with Article 6 of the Paris Agreement;

- 2) Support clean energy, clean technology or renewable energy;
- 3) Provide an essential energy service to a remote community;
- 4) Provide short-term support for emergency response;
- 5) Support Indigenous economic participation in fossil fuel activities; or
- 6) Support abated production processes, or projects that have a credible plan to achieve net-zero emissions by 2030.

In addition to the Assessment Framework, Guidelines were published to achieve two objectives related to Canada's G7 and G20 commitments to eliminate inefficient fossil fuel subsidies: avoid creating new measures that would be considered inefficient fossil fuel subsidies; and ensure existing policies and programs no longer support the fossil fuel sector unless it is aligned with the Assessment Framework.

These Guidelines now apply to all federal departments and agencies and will ensure all future subsidies provided to the fossil fuel sector meet at least one of the six criteria above.

Canada has committed to undertake a peer review of its assessment of federal inefficient fossil fuel subsidies through the G20 process. Peer reviews of inefficient fossil fuel subsidies can increase transparency, encourage dialogue, and help develop best practices while moving toward a low-carbon economy.

As part of the peer review under the G20 process, Canada will prepare a self-review report which will be examined by an international peer review panel, which generally includes the partner country and potentially other countries and international organizations, including the Organisation for Economic Co-operation (OECD).

The Government of Canada recognizes the importance of transparency and public accountability. This is why Canada's self-review report and peer review process are part of its G20 and G7 commitment to phase out inefficient fossil fuel subsidies. The self-review report will be made public once the peer review is finalized.

CONCLUSION:

The Government of Canada recognizes the importance of the sustainable development of the natural resources sectors for Canadians and Canada's net zero future. We thank the Standing Committee, as well as all witnesses who appeared before it, for calling attention to these important issues. The recommendations outlined in the final report generally align with existing federal measures to support the natural resources sectors in collaboration with Indigenous Peoples. The Government is working to address the Committee's recommendations through its science, policies, delivery of ongoing external-facing programs, and through collaboration with provinces, territories, industry, workers, academia and Indigenous communities and leaders.