

Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget

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LIST OF RECOMMENDATIONS

- **Recommendation 1: *Clean Fuel Tax Policy Review***

That Finance conduct a review of Canadian tax policies to support investment in the production and use of clean fuels in Canada.¹ The 'Clean Fuel Tax Policy Review' should be conducted in the fall of 2020, to inform the development of specific measures for Budget 2021. The review should include consultations with clean energy finance/tax experts and the national clean fuel industry stakeholders, including but not limited to:

- I. Renewable liquid fuels and non-fossil liquid fuels (biofuels and synthetic fuels derived from wastes or carbon capture and use)
- II. Renewable gases (renewable natural gas, renewable hydrogen)
- III. Renewable power (hydro, wind, solar, geothermal, biomass, marine)
- IV. Zero emission vehicles (electric cars and fuel cell electric vehicles) powered by renewable electricity or renewable/low carbon hydrogen

- **Recommendation 2: *Clean (Liquid) Fuel Production Tax Credit***

That Canada establish a \$2.5 billion 10-year refundable production tax credit incentive to attract private sector capital investment in clean liquid fuel production capacity, develop new markets for clean fuels produced in Canada from sustainable agricultural and forestry biomass and waste resources, and expand exports of clean fuels and clean technologies.

- I. Funding mechanism: Refundable tax credit
- II. Credit rates: Fixed credit rates (CAD/litre) should be established for different classes of clean liquid fuels (for example, see Quebec's refundable tax credit structure² and Alberta's former *Bioenergy Producer Program*³)
- III. Eligibility: CGSB certified fuels, based on actual production, payable quarterly in arrears, and subject to annual audit
- IV. Contribution level:
 - Annual program allocation - \$250 million
 - Maximum annual grant per facility – \$12.5 million (5%)

¹ This brief refers to non-fossil, low carbon emission fuels as 'clean fuels'.

² Quebec Refundable Tax Credit: http://www.budget.finances.gouv.qc.ca/budget/2018-2019/en/documents/AdditionalInfo_18-19.pdf

³ Alberta *Bioenergy Producer Program*: <https://www.alberta.ca/bioenergy-producer-program.aspx>

- **Recommendation 3: *Clean (Liquid) Fuel Infrastructure Program***

That Canada establish a \$100 million 2-year clean liquid fuel infrastructure program to increase marketing and use of higher blends of low carbon biofuels in Canada and support implementation of the [Clean Fuel Standard](#) in 2022.

- I. Funding mechanism: [Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative](#) (NRCan)
- II. Scope: Biofuels blending infrastructure investments – biodiesel and ethanol blends (e.g. B20, E15/85)
- III. Total fund: \$100 million
 - FY 2021-2022: \$50 million
 - FY 2022-2023: \$50 million
- IV. Contribution level:
 - Maximum grant per project (funding level) - \$5 million (5%)
 - Maximum contribution per project (percent of capital expenditures)
 - 75% (retail sites)
 - 35% (wholesale/transload sites)
 - Minimum private investment
 - 25% (retail sites)
 - 65% (wholesale/transload sites)
- V. Fuel stream:
 - Biodiesel – B20 20% of program (\$20 million)
 - Ethanol – E15/E85 80% of program (\$80 million)

- **Recommendation 4: *Clean Fuel Income Tax Cut***

That Canada, working with support from Standards Council of Canada, the National Research Council, Sustainable Technology Development Canada, and other experts to identify clear, science-based eligibility, amend the [Income Tax Act](#) to support the establishment of cleantech business operations in Canada:

- I. Implement a fifty percent (50%) income tax cut for companies that manufacture clean fuels, zero-emission vehicles, clean fuel infrastructure and technologies:
 - i. Reduce corporate taxes for small cleantech businesses from nine percent (9%) to four decimal five percent (4.5%);
 - ii. Reduce corporate taxes for larger cleantech businesses from fifteen percent (15%) to seven decimal five percent (7.5); and

- iii. Extend and maintain the respective 4.5% (small business) and 7.5% (large business) tax rates for at least 10 years.
- II. Specify eligible activities for the prescribed cleantech tax rates, including but not limited to:
 - i. Manufacturing related to renewable power generation (e.g. hydro, wind, solar, geothermal, biomass, marine);
 - ii. Production of renewable fuels (e.g. liquid biofuels, biogas, renewable natural gas, renewable hydrogen, renewable solid fuels) and fuels from carbon capture and use and waste technologies;
 - iii. Zero emission vehicle (electric and fuel cell) manufacturing;
 - iv. Batteries for use in zero emission vehicles;
 - v. Fuel cells for use in fuel cell vehicles;
 - vi. Carbon sequestration and removal technology; and
 - vii. Clean fuel infrastructure and clean technology equipment directly related to supporting the production, distribution, and use of the specified clean fuels and clean technologies set out in sub-sections (i) to (vi) above.

(the above sub-sections (i) to (vii) are hereafter called the 'Clean Fuel Activities')

- **Recommendation 5: *Accelerated Investment Incentive – Clean Fuels***

That Canada implement a 10-year extension to the [Accelerated Investment Incentive](#) for specified clean fuel investments, as follows:

- I. Class 53 (manufacturers and processors) – extend the write-off of the full cost of machinery and equipment purchased for Clean Fuel Activities related to manufacturing or processing of goods that are put into use within 10 years
- II. Class 43 (clean energy investments):
 - i. Amend the definition of specified 'clean energy equipment' to include machinery and equipment purchased for Clean Fuel Activities;
 - ii. Extend the write-off of the full cost of clean energy equipment (classes 43.1 and 43.2) that are put into use within 10 years
 - iii. See Recommendation 6 (b) below

- **Recommendation 6: Clean Fuel Innovation**

That Canada support clean fuel innovation leadership in Canada by reinforcing and aligning existing tax policies and fiscal programs to support investment in clean fuel technology research and development:

- I. [Scientific Research and Experimental Development](#) (SR&ED) – enhance the program for clean fuel research and development:
 - i. Reinstate eligibility for pre-commercial ([TRL 1-8](#)) clean fuel technology development capital expenditures; and
 - ii. Work with other governments to align eligibility with [provincial and territorial innovation programs](#) to enhance attractiveness of clean fuel innovation expenditures in Canada.
- II. [Canadian renewable and conservation expense](#) (CRCE) – develop cleantech capital pools to fund investment in clean fuel technology pilot and demonstration projects:
 - i. Amend Section 1219 of the [Income Tax Regulations](#) to qualify pre-commercial ([TRL 1-8](#)) clean fuel technology pilot and demonstration project expenses as an eligible CRCE;
 - ii. Maintain inclusion of CRCE in definition of *Canadian exploration expense* (CEE) to enable flow-through eligibility of the expenses; and
 - iii. Specify that eligible ‘clean fuel technologies’ include, but not be limited to, pilot and demonstration stage Clean Fuel Activities.
- III. [Sustainable Development Technology Canada](#) (SDTC) – quantify new funding to provide 10-year stability for SDTC to support the development and pre-commercial demonstration of clean fuel technologies in Canada.
- IV. [Applied research funding](#) – quantify stable, 10-year funding for clean fuels production and use applied research, and direct a portion of industrial carbon pricing revenues under the [Greenhouse Gas Pollution Pricing Act](#) to support clean fuel applied research in Canada in each fiscal period.

- **Recommendation 7: *Trans Mountain Expansion Project – Clean Fuels***

That Canada legislate the requirement for 100% of [Trans Mountain Expansion Project](#) (TMX) proceeds, including incremental corporate income tax revenue, dividends, and capital gains on sale, to be invested in nature-based climate solutions and clean energy projects:

- I. Define ‘clean energy projects’ to include, but not be limited to, the Clean Fuel Activities
- II. Require that at least 75% of TMX proceeds be allocated to ‘clean energy projects’

- **Recommendation 8: *Transportation Fuel Tax Policy Review – Clean Fuels***

That Canada, in conjunction with the provinces and territories, conduct a transportation fuel taxation (excise and carbon pricing) review to consider:

- I. Transportation infrastructure funding requirements;
- II. National and regional climate action and economic development policies; and
- III. Tax fairness across non-fossil, clean fuel alternatives.

The transportation fuel tax policy review should include, but not be limited to:

- i. Application of carbon taxes on biogenic carbon combustion emissions;
- ii. Application of fuel taxes on an energetic, rather than volumetric basis; and
- iii. Support for non-fossil, clean fuels to lower fuel costs for consumers, reduce compliance costs for obligated parties under the *Clean Fuel Standard*, lower greenhouse gas emissions, and set a clear path to exceed Canada’s 2030 emissions reduction target and achieve net zero emissions by 2050.

Re-starting the Canadian Economy: Building Back Better with Clean Fuels

Canada's Clean Fuel Strategy

Canada's national clean fuel sector leaders have called for a 'clean fuels strategy'.⁴ In our January 2020 report entitled [*Canada's Clean Fuel Strategy*](#), Advanced Biofuels Canada defined the following objectives for the strategy:

1. Establish a clear market signal to support private sector capital investments in globally competitive, commercial production of clean fuels in Canada;
2. Reduce greenhouse gas emissions from fuels use and support compliance with national emission reduction targets, federal regulations, and international climate action agreements;
3. Improve Canada's long-term competitiveness in the global clean energy economy;
4. Facilitate the advancement of clean fuels innovation and the commercialization of 'first-of-kind' clean fuel technology platforms in Canada; and
5. Provide new opportunities for Indigenous Peoples, agricultural producers, value-added agricultural and forestry processing and waste management, and rural and remote communities.

Re-Starting the Canadian Economy

Firstly, we acknowledge our appreciation for the extraordinary efforts and dedication of our elected officials and public service personnel as you work through the incredible twin challenges of the health impacts and economic consequences of the COVID-19 pandemic.

Since appearing before the Committee in February 2020 to present our brief on *Canada's Clean Fuel Strategy*, much has changed. Over the past months, we re-directed our efforts to assist companies struggling to manage the impacts on their businesses and then moved forward to analyze how our sector can contribute to a resilient recovery. In collaboration with other clean sectors, we have defined enormous potential to create durable economic growth and good paying jobs that benefit all Canadians and all regions, from coast to coast to coast. Our approach focuses on market- and performance-based tax policies to leverage private sector leadership.

Our analysis focuses on the contribution that non-fossil, clean liquid fuels (biofuels and synthetic low carbon fuels) can make to Canada's economic recovery and long-term growth. However, we have framed many of our recommendations in the context of 'clean fuels' more broadly, to illustrate the applicability of the measures across other clean fuel platforms (e.g. renewable power, renewable gases, electric vehicles, and fuel cell vehicles).

⁴ National Clean Fuel Strategy (Sep04-2019): <https://biofuels-news.com/news/canadian-clean-fuels-associations-call-for-national-strategy-to-reduce-emissions/>

Economic Impact & Jobs

Advanced Biofuels Canada has profiled Canada's clean liquid fuel sector, together with recommendations to guide sector development (pre-COVID, and current) and forecast economic benefits and jobs. The following resources provide detailed analysis:

1. [Roadmap to 2030](#) – *Clean Fuels Investment in Canada* (November 2019)
2. [Canada's Clean Fuel Strategy](#) (January 2020)
3. [Clean Fuels Investment Program](#) – *COVID-19 Economic Recovery* (June 2020)

In the fall 2020, we will release updated information on sector growth potential and new modelling of the liquid class *Clean Fuel Standard* regulations.

Policy Alignment (see *Canada's Clean Fuel Strategy* report for detailed analysis)

1. [Pan-Canadian Framework on Clean Growth and Climate Change](#)
2. [Generation Energy Council Report](#)
3. [Economic Strategy Tables](#) (Clean Technology, Resources of the Future)
4. [Expert Panel on Sustainable Finance](#)

Attracting Investment - Moving Forward

We invite the Government of Canada and all parties and members of Parliament to work together on sound, evidence-based policies that re-establish Canada as 'the best place to invest' energy dollars. No single recommendation or policy can achieve this goal, but – especially for Canada - re-building our economic health depends on finding common resolve on our energy and climate action policies in order to attract the requisite capital to transition to a strong, resilient economy.

We welcome your questions and comments and would be pleased to present our recommendations to the Standing Committee at your future hearings.

Advanced Biofuels Canada/ Biocarburants avancés Canada

Advanced Biofuels Canada is the national voice for producers, distributors, and technology developers of clean fuels in Canada. Our members are global leaders in commercial production of advanced biofuels and technology development, with over 14 billion litres of installed annual production capacity worldwide.

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