CLEAN ENERGY CANADA

BRIEFING NOTE

Date: August 30, 2023 | **Prepared by:** Rachel Doran, Vice-President of Policy & Strategy

Clean Energy Canada's Submission on the Design of Clean Economy Tax Credits

Introduction

Clean Energy Canada is a climate and clean energy program within the Morris J. Wosk Centre for Dialogue at Simon Fraser University. We are pleased to submit these comments as part of the Department of Finance consultations on Budget 2023 tax measures. We will be limiting our comments to the Carbon Capture, Utilization and Storage (CCUS) Investment Tax Credit and the Clean Technology Investment Tax Credit.

Recommendations for the design of the Carbon Capture, Utilization and Storage (CCUS) Tax Credit

Clean Energy Canada supports the Government's emphasis on permanent geological storage in the proposed tax credit design. A review of the literature on industrial carbon removal indicates that dedicated storage is the only assured way to achieve a reduction of atmospheric CO_2 from CCUS. The International Energy Agency's net-zero by 2050 scenario assumes that 95% of the CO_2 captured in 2050 would be stored permanently in geological storage.

Clean Energy Canada supports making enhanced oil recovery an ineligible activity. Research shows that EOR releases more CO_2 than it removes from the atmosphere.

Clean Energy Canada agrees with the Government that the application of carbon capture and utilization should be limited and must account for the extent to which a captured and utilized ton of CO_2 reduces emissions, based on life-cycle assessment. At the same time, the Government of Canada should review the definition of "eligible use" regularly going forward as technology readiness, particularly in the key heavy industry sectors, may evolve quickly.

The current definition of "eligible use" includes only permanent geological storage or use in concrete. This definition would preclude using the tax credit towards investment in emerging technologies for carbon utilization in, for example, the chemical industry, (the International Energy Agency has highlighted the chemical industry as one of the most promising applications

for CCUS technology because in many chemical production processes, including ammonia and methanol, the CO_2 is chemically separated and purified). Emerging technologies may include the chemical conversion of captured carbon into materials or chemical compounds where carbon is securely stored and net emissions demonstrably reduced as evidenced through life-cycle assessment.

Clean Energy Canada welcomes a restrictive definition of CCUS that does not include carbon capture or storage with little to no long-term additional carbon reductions. However, incentivizing the development of key technologies that will allow for heavy industry emissions reductions could be a useful objective of this tax credit going forward.

We recommend the government review the definition of "eligible use" at regular intervals as the technology-readiness level and need for carbon capture in the heavy industry sector is likely to evolve quickly. Any addition to the definition should meet the test of true, additional, permanent, or secure long-duration reductions, using a life-cycle assessment to prove additionality.

Clean Energy Canada encourages the government to expand the definition of eligible use if and when new technologies that meet these criteria for carbon utilization become available in Canada.

Recommendations for the design of the Clean Technology Investment Tax Credit

Clean Energy Canada applauds the release of further details concerning the proposed Clean Technology Investment Tax Credit. We support the Government's proposed design.

Recommendations on timeline for finalization of all clean economy tax credits

Clean Energy Canada encourages the Government of Canada to also finalize all details of the Investment Tax Credit for Clean Technology Manufacturing, the Investment Tax Credit for Clean Electricity and the Investment Tax Credit for Clean Hydrogen before the end of 2023. Businesses that are currently contemplating clean economy investments in Canada continue to face significant uncertainty. Given the speed at which the U.S. finalized many of its clean energy tax credits under the Inflation Reduction Act and the fact that businesses will be able to claim only one of Canada's clean economy tax supports in the event that a particular technology is eligible for more than one, any further delay in finalizing the details of these measures creates the risk that Canada will lose out on significant levels of potential investment.