

# THE ELEPHANT IN THE ROOM:

Canada's fossil fuel subsidies undermine carbon pricing efforts



Setting a strong national carbon price could be a critical step forward for Canadian climate action, but there's a multi-billion-dollar elephant in the room.

**Canada handed \$3.3 billion in subsidies to oil and gas companies last year.**<sup>1</sup>

On top of this, many provinces also continue to subsidize the use of fossil fuels.

Canada's proposed carbon prices are an economic signal meant to reduce carbon emissions from producing and consuming fossil fuels. But this conflicts with fossil fuel subsidies that create an incentive to produce and consume more fossil fuels, and which increase carbon pollution.

How do these two conflicting measures compare? As indicated in the table on the right, **Canada's subsidies to fossil fuel producers send a strong signal to pollute and undermine the intent of carbon pricing – a signal to reduce carbon emissions.**<sup>2</sup>

## A double standard

Canada is creating a double standard when it comes to carbon emissions from the consumption and production of fossil fuels. In 2020, depending on the province, Canadian consumers can expect to pay between \$18 and \$30 per tonne of carbon dioxide emitted. Contrast this with subsidies to oil and gas producers today, which incentivize fossil fuel production (oil and gas companies) to the tune of \$19 per tonne of carbon dioxide emitted. **By giving polluters big breaks, fossil fuel subsidies pull in the opposite direction of a carbon price.**

This system is like taxing consumers when they buy cigarettes while giving massive tax breaks to tobacco companies that encourage them to produce more cigarettes. It simply doesn't make sense.

### Canada's proposed carbon prices vs. current fossil fuel subsidies: conflicting price signals<sup>4</sup>

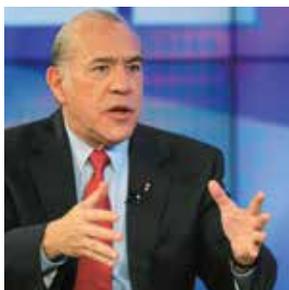
(All figures in \$ CAD / tonne CO<sub>2</sub>)

Subsidy for carbon emissions from oil and gas production in Canada	-\$19
Federal carbon price floor, 2020	\$30
Quebec, 2020	\$18
Ontario, 2020	\$18
British Columbia, 2020	\$21
Alberta, 2020	\$23

The figure in the table above of \$19 per tonne of carbon dioxide emitted was calculated by simply dividing Canadian subsidies to oil and gas production by the oil and gas sector's reported emissions. Although subsidy figures through 2015 are available, the latest official data available for Canada's oil and gas sector emissions is from 2014. Therefore, to ensure a same-year comparison, this analysis uses the 2014 figure for Canadian subsidies to oil and gas production (\$3.6 billion), divided by the 2014 data for Canada's oil and gas sector greenhouse gas emissions (192 megatonnes of carbon dioxide equivalent).<sup>3</sup>

## Fossil fuel subsidies encourage carbon pollution

It's not news that fossil fuel subsidies drive climate pollution. The Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Monetary Fund, and the International Energy Agency are just a few of the agencies that have described fossil fuel subsidies as an incentive to pollute:



*“It’s no secret that fossil fuel subsidies act as a negative price on carbon.”*

- **Angel Gurría, Secretary General of the Organisation for Economic Co-operation and Development (OECD)**<sup>5</sup>

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*“If you dirty up the world, I will reward you.’ This is the message [that fossil fuel subsidies send].”*

- **Fatih Birol, Executive Director of the International Energy Agency (IEA)**<sup>6</sup>

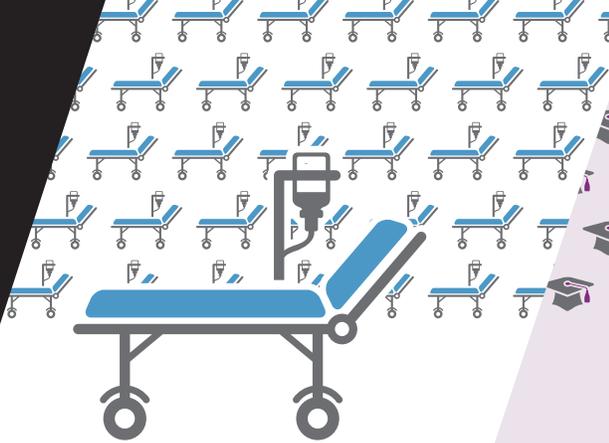
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*“Fossil fuel subsidies send out a terrible signal: burn more carbon.”*

- **Jim Yong Kim, President of the World Bank**<sup>7</sup>

Each year  
Canada gives  
**\$3.3 billion**  
in subsidies to oil  
& gas companies.



That's enough  
to pay for  
**44,000**  
hospital  
beds



That's enough  
to pay for the  
**education of**  
**260,000** high  
school students

The latest data shows that federal and provincial subsidies to oil and gas producers totalled more than \$3.3 billion in 2015.<sup>8</sup> On top of these, additional provincial subsidies not considered in the comparison above encourage the *consumption* of fossil fuels across Canada. These fuel consumption subsidies total hundreds of millions of dollars annually.<sup>9</sup>

## Phasing out fossil fuel subsidies - a failure to act

When it comes to fossil fuel subsidies, Canada and its international peers have a track record of failing to act. Back in 2009, Canada first committed to phase out inefficient fossil fuel subsidies by 2020, along with its G20 peers. This pledge has been reiterated year after year as G20 leaders meet.

Seven years later, **Canadian taxpayers are still paying billions to oil and gas producers.**

## Conclusion and Recommendation

**Canada must establish a clear, ambitious timeline to phase out all its fossil fuel subsidies by 2020 at the latest.** This effort must begin with the federal 2017 budget. Otherwise, the federal government risks cancelling out its newly-announced carbon price with continued incentives to polluters. Four more years - 11 years in total - is more than enough time to fulfill that commitment.

**Canadians deserve a transparent price on carbon that reduces pollution, not obscure subsidies that reward carbon polluters.**

## REFERENCES

1. According to estimates by the International Institute for Sustainable Development's Global Subsidies Initiative, available at <http://www.iisd.org/faq/ffs/canada/>
2. This analysis is likely conservative in a number of ways: first, it only considers subsidies to fossil fuel producers, and leaves out hundreds of millions of dollars in subsidies that encourage fossil fuel consumption, such as tax exemptions for aviation fuel or reduced tax rates for certain kinds of diesel fuel. Second, since many Canadian jurisdictions do not yet have carbon price signals in place but are planning to introduce some form of carbon pricing in the near future, we compare *proposed* carbon price levels with *today's* subsidies to fossil fuel producers, which already provide an incentive to pollute. Carbon prices in Canada today are considerably lower than they are expected to be in 2020; thus, this comparison is more conservative than comparing today's carbon prices with today's subsidy levels
3. According to Environment and Climate Change Canada, available at <https://www.ec.gc.ca/indicateurs-indicators/default.asp?lang=en&n=F60DB708-1>
4. Effective coverage-weighted carbon price figures for provinces from Beguin, D. et al. (2016) "Comparing Stringency of Carbon Pricing Policies." Canada's Ecofiscal Commission. Available at <https://ecofiscal.ca/reports/comparing-stringency-carbon-pricing/>
5. Available at: <http://www.oecd.org/environment/remarks-at-carbon-pricing-leadership-coalition-high-level-assembly-april-2016.htm>
6. Available at <http://www.bloomberg.com/news/articles/2015-06-14/fuel-subsidies-at-16-times-carbon-prices-stymie-pollution-curbs>
7. Available at: <https://www.theguardian.com/environment/2015/apr/13/fossil-fuel-subsidies-say-burn-more-carbon-world-bank-president>
8. Available at: <http://www.iisd.org/faq/ffs/canada/>
9. For a partial list, see IISD's reports on fossil fuel subsidies on Saskatchewan and Ontario, available at <http://www.iisd.org/library/meeting-canadas-subsidy-phase-out-goal-what-it-means-saskatchewan> and <http://www.iisd.org/library/meeting-canadas-subsidy-phase-out-goal-what-it-means-ontario>

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