



The (Public) Cost of Pollution: Ontario's fossil fuel subsidies

REPORT



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1.0 Introduction

In recent studies, the International Institute for Sustainable Development (IISD) has inventoried the billions of public dollars that are being used to subsidize production of fossil fuels in Canada. IISD's inventories at the federal level and in Alberta, Quebec and Nunavut document how public funds are directed to fossil fuel producers and consumers through a combination of tax breaks, incentive programs and other preferential measures.¹ Canada is the largest provider of fiscal support to oil and gas production (per unit of GDP) in the G7 (Whitley et al., 2018). These subsidies encourage the proliferation of fossil fuels and hinder efforts to reduce carbon emissions and transition to a clean economy.

Production subsidies are only one part of the picture. Canada also has many subsidies for fossil fuel *consumption*. Most often, these subsidies are in place at the provincial level. Since production and consumption subsidies need to be considered in tandem to identify pathways for subsidy reform, IISD is working to document provincial fossil fuel subsidies across Canada.

This report looks at fossil fuel subsidies in the Province of Ontario. Last year, Ontario provided nearly CAD 700 million in public subsidies for fossil fuel consumption.

These subsidies represent significant foregone public revenue that could be invested in everything from clean energy to education and health care. The highest subsidies in Ontario relate to three areas in particular: tax exemptions for aviation and railway fuels, tax exemptions for coloured fuel (e.g., fuel used in agriculture) and direct spending on natural gas programs.

It should also be noted that subsidies are developed as legitimate public policy tools and, in theory, are not necessarily poor public policy. For example, subsidies that facilitate affordable energy access in remote or rural communities provide a critically important social outcome. On the other hand, subsidies that are less targeted, or that primarily benefit industry, may result in outsized negative environmental outcomes without clear social and economic benefits. In short, not all fossil fuel subsidies are created equally, and many subsidies could arguably be replaced or reformed by alternative policy instruments that do not result in negative environmental outcomes from fossil fuel use. It is necessary to carefully examine whether fossil fuel subsidies are truly the most effective and efficient ways to deliver on social, economic and environmental policy objectives.

Many of the subsidies documented in this report are not unique to Ontario. Several of the tax breaks listed, such as exemptions for aviation fuel and agricultural use, are common across Canadian provinces (at different rates; see Tables 4 and 5 for examples) and have remained in place to support market competitiveness. As such, reforming subsidies that are common across Canadian provinces will require pan-Canadian collaboration so as not to disadvantage provinces that act to reform these subsidies. For example, Ontario currently has the lowest exemptions for aviation fuel in Canada. Further reducing aviation fuel exemptions will likely necessitate coordination and knowledge sharing with other provinces.

¹ View the federal report here: <https://www.iisd.org/sites/default/files/publications/public-cash-oil-gas-en.pdf>; the Alberta report here: https://d36rd3gki5z3d3.cloudfront.net/wp-content/uploads/2019/02/EDC_IISD_AlbertaFFSReportFINAL.pdf?x17002; the Nunavut report here: http://assets.wwf.ca/downloads/costing_fossil_fuel_subsidies_in_nunavut.pdf; and the Quebec report here (in French): <https://equiterre.org/publication/nouveau-rapport-subsventions-aux-hydrocarbures-au-quebec>



1.1 A Call to Action

With the urgent need to address climate change, it is crucial that provincial governments examine how policies can be better designed to facilitate the transition of Canadian communities to cleaner energy sources. The subsidies listed in this report provide an overview of the current state in Ontario, mapping out where subsidy reform needs to be considered in order to move toward a low-carbon economy.

As a first step, Ontario should undertake a transparent self-review of the subsidies listed in this report to determine their efficiency and effectiveness. Such a review would match the G20 peer review currently underway at the federal level (Government of Canada, 2019b). The results from a review could feed into provincial planning on emission reductions, sustainable energy uptake and improved energy-related support for Ontarians.

As long as fossil fuel subsidies exist, be they for production or consumption, they will continue to distort the market and slow down the transition to lower-carbon energy alternatives. It is therefore of utmost importance that Ontario's fossil fuel subsidies are inventoried, transparently reported and addressed by governments.

As the most populated province in Canada, what Ontario does matters. If Ontario develops a public accounting of provincial fossil fuel subsidies and creates a plan to evaluate and address them, it will send a strong signal to other Canadian provinces and the federal government.

1.2 A Note on Methodology

This report uses a methodology consistent with other reports published under IISD's Global Subsidies Initiative that includes direct budgetary transfers and government revenue foregone (via uncollected or under-collected levies and taxes). In evaluating subsidies at the provincial and territorial levels in Canada, IISD uses the World Trade Organization (WTO) definition of subsidies from the *Agreement on Subsidies and Countervailing Measures* (WTO, n.d.). Where subsidies are quantified in this document, data was obtained primarily from provincial budgets and financial publications. Ancillary information on new policy developments and budget allocations was obtained from primary government sources (such as news releases, regulations, laws and program guidelines posted online), with direct communication with provincial government staff as needed for clarification.

For further information on IISD's methodology, please refer to Annex 1.



2.0 Inventory of Ontario's Fossil Fuel Subsidies

2.1 Tax Exemptions and Refunds

Consumption-related fossil fuel subsidies often come in the form of tax exemptions. They are frequently associated with the use of fossil fuels such as gasoline, diesel, propane, coal and natural gas. In Ontario, these tax breaks are primarily associated with the fuel tax and the gasoline tax.

2.1.1 Fuel Tax Exemptions and Refunds

Like many provinces, Ontario offers an array of tax exemptions and reductions for the consumption of transport fuels. When combined, Ontario's fuel tax exemptions amount to a total of at least CAD 288 million in 2018/19.

Of these, tax exemptions for coloured fuels are the most significant. This type of exemption is consistent across Canadian provinces. In total, exemptions for coloured fuels in Ontario have ranged between an economic value of an estimated CAD 215 million to CAD 270 million annually over the past four years (see Table 1).

Coloured fuels are exempt from the normal fuel tax rate of 14.3 cents per litre (Government of Ontario, 2019a). These fuels are exempt from the fuel tax if they are used in unlicensed construction or farm equipment, or home heating (Ontario Ministry of Finance, 2010).²

Reduced fuel tax rates of 4.5 cents per litre are also available for railway diesel. The reduced rate of fuel tax for railway diesel amounts to an economic value of roughly CAD 60 million annually (see Table 1).

Ontario also has a fuel tax refund for power take-off equipment such as cement mixers, aerial buckets, lifts, cranes, refrigeration units, power vacuums, pumps and blowers (Ontario Ministry of Finance, 2018b). Over the past several years the annual value of this refund has amounted to between CAD 3 million and CAD 4 million (see Table 1).

Table 1. Fuel tax (in CAD)

Tax Expenditure	2015/16	2016/17	2017/18	2018/19
Exemption for Coloured Fuel	215,000,000	270,000,000	260,000,000	225,000,000
Reduced Rate for Railway Diesel	65,000,000	65,000,000	60,000,000	60,000,000
Refund for Auxiliary Power Take-Off Equipment	3,000,000	4,000,000	4,000,000	3,000,000

Source: Government of Ontario, 2015, 2016, 2017, 2018b.

² It is illegal to use tax-exempt fuels for purposes other than those listed by the Ministry of Finance (Ontario Ministry of Finance, 2010).



2.1.2 Gasoline Tax Exemptions and Refunds

Ontario has specific exemptions and refunds available for the gasoline tax. The normal tax rate for unleaded gasoline is 14.7 cents per litre (Ontario Ministry of Finance, 2018a).

The aviation tax rate for fuel has been 6.7 cents per litre since 2017, when it rose to that level after a series of annual increases starting at 3.7 cents per litre in 2014 (Ontario Ministry of Finance, 2018a). For aviation fuel alone, this reduced rate amounted to a value of at least CAD 260 million in 2018/19 (see Table 2).

Propane is also subject to a reduced tax rate of just 4.3 cents per litre (Ontario Ministry of Finance, 2018a). A tax exemption for the use of methanol and natural gas also exists and reached a high of CAD 25 million in 2018/19 (see Table 2).

For the fuels listed in Table 2, the Government of Ontario has used the gasoline tax as the tax benchmark in its own reporting (Government of Ontario, 2018b).

Table 2. Exemptions from the gasoline tax (inCAD)

Tax Expenditure	2015/16	2016/17	2017/18	2018/19
Exemption for Methanol and Natural Gas	15,000,000	15,000,000	20,000,000	25,000,000
Reduced Rate for Aviation Fuel	320,000,000	285,000,000	270,000,000	260,000,000
Reduced Rate for Propane	7,000,000	7,000,000	8,000,000	8,000,000
Refund for Auxiliary Power Take-Off Equipment	< 1,000,000	< 1,000,000	< 1,000,000	<1,000,000
Refund for Aviation Fuel	< 1,000,000	< 1,000,000	< 1,000,000	<1,000,000
Refund for Tax-Exempt Use in Unlicensed Equipment	3,000,000	3,000,000	3,000,000	2,000,000

Note: all numbers in this table reflect the Government of Ontario's own estimates of foregone revenue, as published in their annual taxation transparency reports.

Source: Government of Ontario, 2015, 2016, 2017, 2018b.

2.2 Direct Spending

Tax exemptions are not the only form of fossil fuel consumption-related subsidies in Ontario. The province also encourages the consumption of fossil fuels through direct spending. These forms of subsidies ultimately incentivize investment in and use of fossil fuel infrastructure, creating long-term fossil fuel “lock in” for Ontario’s communities.

2.2.1 Natural Gas Programs and Policy Support

In 2017, Ontario introduced the Natural Gas Grant Program, which was intended to invest roughly CAD 100 million to connect northern rural and First Nation communities to natural gas in an effort to reduce home heating costs (Government of Ontario, 2018a). Eleven projects were announced in 2018, totalling up to roughly CAD 75 million in investments (see Table 3).



The social benefits of this program must be recognized, as in many cases there are clear benefits to improving the affordability of living conditions in remote areas of Ontario. Ensuring affordable energy is an important social goal that should not be understated. However, these subsidies should be very carefully designed, monitored and periodically reviewed to ensure they are efficient and that no better alternatives (i.e., less environmentally damaging, less costly) are available to achieve those same objectives.

It is important to quantify the public funds being put toward natural gas programs in order to examine whether existing policies provide the best value for money in terms of both social and environmental benefits. Investing in natural gas, without a thorough analysis of potential for lower-carbon alternatives (such as geothermal), locks communities into costly energy infrastructure with high carbon footprints.

Table 3. Natural Gas Grant Program (in CAD)

Project	2017/18	2018/19
Overall budget allocation	100,000,000	
Chippewas of the Thames First Nation		1,425,000
Cornwall Island		3,447,000
Fenelon Falls		12,330,000
Hiawatha First Nation		3,140,000
Moraviantown First Nation		311,000
North Shore and Peninsula Roads		8,667,000
Saugeen First Nation		1,802,000
Scugog Island		6,324,000
South Bruce		≤ 27,733,000
Chatham-Kent Rural Pipeline Expansion		8,000,000
Natural Gas Access for Northern Mining Operation		1,600,000

Source: Government of Ontario, 2018a.

In 2018, Bill 32 was introduced, which amended the Ontario Energy Board Act and provided an additional subsidy measure (Minister of Infrastructure, 2018). The bill, which received Royal Assent in December 2018, provides rate protections for consumers with “respect to costs incurred by a gas distributor in making a qualifying investment for the purpose of providing access to a natural gas distribution system to those consumers” (Minister of Infrastructure, 2018).

This rate protection is a subsidy that allows certain consumers access to natural gas at a rate below the cost of the provision of service. The bill further allows the natural gas distributors who bear this cost to be compensated by selected classes of consumers. Notably, this subsidy is not provided by the government via public money. Rather, Bill 32 facilitates a form of cross subsidy, where some consumers bear the cost of service for others.

Ontario has since phased out the Natural Gas Grant Program and introduced a new program under Bill 32. Phase 1 of the new Natural Gas Expansion Support Program will continue funding nine projects from the list in Table 3 that were initially funded under the Natural Gas Grant Program (Government of Ontario, 2019c). Phase 2 of



the program is anticipated to begin in late 2020 or early 2021 and is intended to provide further funding for new projects that involve natural gas infrastructure (Ministry of Energy, Northern Development and Mines, personal communication, June 12, 2019).

While the original Natural Gas Grant Program was entirely government funded, the Natural Gas Expansion Support Program seeks to provide funding to communities and, in turn, leverage private sector funds to facilitate natural gas expansion across the province. Communities partner with gas distributors to develop projects, which are then presented to the Ontario Energy Board (Office of the Premier, 2018). Like its predecessor, this program facilitates the expansion of fossil fuel infrastructure without facilitating analysis of and investment in cleaner energy sources.

2.2.2 Additional Investments in Fossil Fuel Production and Consumption

In addition to tax exemptions and the Natural Gas Grant Program, Ontario has made other direct investments in the fossil fuel sector in recent years. In 2017, the Government of Ontario committed CAD 100 million in funding through Ontario's Jobs and Prosperity Fund (Healing, 2019).

The Ontario Jobs and Prosperity Fund is a 10-year, CAD 2.7 billion fund designed to support “productivity, innovation and export activities” (Government of Ontario, 2019b). It is not explicitly a measure to subsidize fossil fuel production or consumption; however, individual fossil fuel-related projects could be considered eligible for funding.

More recently, the province committed CAD 30 million to the construction and operation of a liquefied natural gas (LNG) plant on the north shore of Lake Superior (Alex, 2019). Of this, CAD 27 million is being provided as direct funding for the first phase of the project (construction of the LNG plant). An additional CAD 3.4 million is intended for the second phase of the project through Ontario's Northern Ontario Heritage Fund Corporation (Ministry of Infrastructure, 2019). The latter aims to support local communities to develop plans and facilitate approvals to expand natural gas in the region.

The Northern Ontario Heritage Fund Corporation is designed to “promote and stimulate economic development initiatives in Northern Ontario” (Northern Ontario Heritage Fund Corporation, 2019). As with the Ontario Jobs and Prosperity Fund, it is not targeted at fossil fuel projects specifically. However, due to its broad mandate, the fund could support fossil fuel projects. The Lake Superior LNG plant is one such example of how program funds can be ultimately allocated to fossil fuel production or consumption.



3.0 The Largest Subsidies: Aviation and railway fuels, coloured fuels and natural gas grants

In Ontario, there is a group of subsidy areas in particular that account for high amounts of public revenue foregone to support fossil fuel consumption. They are natural gas grants, as well as tax exemptions for aviation fuel, railway diesel and coloured fuels. In this section, we discuss each of these subsidies in relation to their surrounding policy environments and the need to reform.

Consumer fossil fuel subsidies and fiscal supports were designed with specific policy objectives in mind, including energy affordability, industry competitiveness and more. Identifying these policy objectives and re-evaluating priorities in the context of climate change are crucial next steps. Policy-makers in Ontario must consider whether alternative policy interventions might achieve more optimal social, economic and environmental outcomes.

As the potential for subsidy reform is explored, it must be noted that the reform of consumer energy subsidies can have a direct impact on vulnerable energy users. This includes potential impacts on users who might not have the income to easily adjust to the elimination of subsidies that are designed to support households. Alternative policy options must be able to facilitate a transition to cleaner energy sources while supporting Ontario's most vulnerable. The same issue applies to subsidies granted to the private sector, the removal of which may expose businesses to competition from subsidized foreign competitors.

Subsidies and fiscal supports for fossil fuels are strongly influenced by policies in other provinces or countries. If subsidies exist across borders (within Canada or internationally), they cannot necessarily be addressed in isolation. For Ontario, this means that it is necessary to look at whether similar subsidies are in place across provincial and international borders and what the rationale is behind them. This is a useful starting point to consider if there are useful alternatives that achieve better results.

3.1 Aviation and Railway Fuels

Aviation and railway fuel tax exemptions are two transportation-related fossil fuel subsidies that are common across most provinces, and thus they pose a particular challenge to address. The challenge of individual province taxation rate changes has been recognized in previous literature regarding aviation fuel subsidy reform: when Ontario initially raised its fuel taxes, the National Airlines Council cited potential economic impacts that would disadvantage Ontario (National Airlines Council of Canada, 2015).

It is definitely possible that Ontario could be a leader and first mover to revise aviation and railway fuel taxation rates. To ease the transition, the province could potentially use extra tax revenues from fossil fuels to lower taxes in other areas that increase competitiveness (such as labour). However, province-to-province collaboration would provide a more comprehensive way of addressing these subsidies across Canada while ensuring the strongest outcomes for competitiveness.

Table 4 compares the gasoline and aviation tax rates across Canadian provinces. Interestingly, Ontario's gasoline tax rate for aviation fuels is actually the highest in Canada. Nonetheless, this tax exemption represents a high amount of foregone tax revenue. As such, the aviation sector holds significant opportunity for fossil fuel subsidy reform.

**Table 4. A comparison of gasoline and aviation tax rates across Canada (in CAD)**

Province	General Gasoline Tax Rate (cents per litre)	Aviation Tax Rate (cents per litre)
Ontario (Ontario Ministry of Finance, 2018a)	14.7	6.7
Alberta (Alberta Government, 2019)	13.0	1.5
British Columbia (Ministry of Finance, 2019)	15.5 – 25.5 (depending on the region)	2.0
Manitoba (Manitoba Finance, 2019)	14.0	1.5 – 3.2 (commercial cargo vs. other aviation)
New Brunswick (New Brunswick Finance, 2019)	15.5	2.5
Newfoundland & Labrador (Government of Newfoundland & Labrador, 2019)	16.5	2.5
Nova Scotia (Government of Nova Scotia, 2019)	15.5	2.5
Prince Edward Island (Prince Edward Island Finance, 2019)	9.68	0.7
Quebec (Revenu Québec, 2019)	19.2	3.0
Saskatchewan (Government of Saskatchewan, 2019)	15	1.5

As Ontario shows, reform of fuel tax exemptions can happen unilaterally. However, there is ample opportunity to work toward mutually agreed reforms across provinces. By doing so, provinces could ensure that competitiveness is maintained and potentially reduce the amount of subsidies to aviation companies for fuel. If supports for aviation are necessary, the savings of fuel subsidy reforms could be used in other ways. For example, similar funding could be invested in infrastructure without being tied to polluting fuels.

The situation for railway fuel subsidies in Ontario is similar. With the exception of Saskatchewan, most Canadian provinces provide a level of support for railway fuel. A comparison of different fuel tax rates across provinces is illustrated in Table 5.

**Table 5. A comparison of different fuel/diesel tax rates and rates for railway fuel across Canada (in CAD)**

Province	Fuel Tax Rate or Diesel Tax Rate (cents per litre)	Railway Equipment Tax Rate (cents per litre)
Ontario (Government of Ontario, 2019a)	14.3	4.5
Alberta (Alberta Government, 2019)	13.0	5.5
British Columbia (Ministry of Finance, 2019)	15–26 (depending on the region)	3.0
Manitoba (Manitoba Finance, 2019)	14.0	6.3
New Brunswick (New Brunswick Finance, 2019)	21.5	4.3
Newfoundland & Labrador (Government of Newfoundland & Labrador, 2019)	16.5	Possibly exempt, must apply for refund
Nova Scotia (Nova Scotia Tax Commission, 2014; Government of Nova Scotia, 2019)	15.4	May qualify for exemption/refund
Prince Edward Island (Prince Edward Island Finance, 2019; Legislative Counsel Office, 2013)	15.83	May qualify for exemption permit
Quebec (Revenu Québec, 2019)	20.2	3.0
Saskatchewan (Government of Saskatchewan, 2019; Saskatchewan Ministry of Finance, 2001)	15	15.0

As with aviation fuel, there is an opportunity to reform railway fuel subsidies in Canadian provinces through cross-provincial dialogue. Inter-provincial cooperation could help identify whether other supports are needed for industry, and, if so, what types of supports could be provided that do not enable higher levels of fossil fuel consumption.

3.2 Coloured Fuels (Agriculture)

Coloured fuels are commonly used in agriculture. They are often tax exempt or tax reduced at the provincial level in order to provide economic relief to farmers. The rationale for these exemptions is that farmers often face difficult profit margins and are currently generally reliant on high amounts of fuel to conduct their operations.

Like other fossil fuel subsidies, coloured fuel tax exemptions distort the market. However, if there are no alternatives for farmers to paying the higher cost of unsubsidized fuel, and these subsidies benefit small farmers that are on the edge economically, then as distortive as they are, these subsidies may take time to reform.

Looking at the large economic value of coloured fuel subsidies (roughly CAD 225 million most recently—see Table 1), it is worth understanding the significant amount of public funds they represent and the potential opportunity costs at play. Further work to examine these subsidies could determine whether there are better ways to provide economic relief for farmers without distorting markets on polluting fuels. It is imperative that policy-makers identify whether there are opportunities to offer farmers additional relief without incentivizing fossil fuel consumption, as well as how to implement other policy measures to increase energy efficiency and support reduced reliance on fossil fuels in farming practices.



3.3 Natural Gas Grants

It appears that one of the main motivations for Ontario's natural gas funding programs has been to increase access to more affordable energy. Although fossil fuel subsidies may be necessary for ensuring affordable energy access in the short term, given the high financial cost of these subsidies, not to mention the negative externalities associated with fossil fuel use, longer-term solutions must be developed.

For example, if reducing energy costs is a policy objective, energy efficiency can be a potential tool as well, without the negative side effects of fossil fuel subsidies. Similarly, grant programs or other fiscal supports could facilitate development and implementation of renewable energy sources such as wind and solar rather than natural gas. If provincial funding is re-allocated from fossil fuel subsidies, there would be an opportunity to encourage affordable and renewable sources of energy across Ontario.

In its planning to provide affordable energy to Ontarians, the province should evaluate a variety of types of energy projects to determine which perform best from economic, social and environmental perspectives. Results from this analysis should be publicly communicated. Ultimately, improved policies and programs must be developed to provide sustainable energy access to all communities in Ontario in an economical and environmentally friendly manner.



4.0 Conclusion

In Canada, fossil fuel subsidies for both production and consumption have become entrenched. Ontario is no exception. Many existing fossil fuel subsidies were implemented with the best of intentions to provide cost relief for consumers and the private sector. Others were installed well before we had a good understanding of how fossil fuel emissions cause climate change. Many subsidy schemes have been in place for long time periods, with the goals they were looking to meet and the environments they were developed in, in some cases, changing radically. We also know that, over time, subsidies are often captured by interests other than the target beneficiaries.

However, the reality is that the value of these subsidies continues to increase, while the state and stability of our environment continues to decline. Given the devastating current and future impacts of climate change, it is time for a thorough review of fossil fuel subsidies at the provincial level in Ontario. As these subsidies are evaluated, the following questions should be answered:

- Are these subsidies truly effective tools to achieve intended economic, social or environmental goals?
- What are their *unintended* impacts (including climate change impacts)?
- Are there better policy or subsidy options that exist, that achieve the intended goals, avoid negative unintended impacts, and do so cost-effectively? Reform of a subsidy itself through redesign and better targeting may also allow for policy goals to be met more cost-effectively.

We strongly recommend that Ontario undertake a self-review of the subsidies listed in this report, in addition to examining other ways that fossil fuel use is supported through existing policies and regulations. In doing a review, Ontario should take into account the full cost of these subsidies, including their adverse environmental, health and social impacts. By examining the outcomes of fossil fuel subsidies as compared to more sustainable alternatives, Ontario can begin a process of subsidy reform.

Ontario's communities and industry can transition away from fossil fuels if there are viable options for alternatives and if unwanted impacts from such a transition are minimized. It is entirely possible to seize opportunities to provide citizens with affordable energy access and do good by the climate. Renewable energy and energy-efficiency initiatives are two such ways. A re-evaluation of Ontario's subsidies will create room to redirect public funds to what really matters: strong, healthy, prosperous communities with a clean environment to live in.



5.0 Next Steps

The Government of Ontario could take the following concrete steps to address fossil fuel subsidies:

- Undertake a self-review of the subsidies listed in this report. Evaluate the environmental, social and economic costs of each subsidy and identify areas for improved policy efficiency.
- Release publicly accessible data on all existing fossil fuel subsidies, including those listed in this report.
- Liaise with the Government of Canada as they complete their G20 peer review of inefficient fossil fuel subsidies.
- Use results from a self-review of subsidies to feed into effective provincial planning. Develop a timeline and action plan for the phase-out of fossil fuel subsidies, in line with policy priorities such as responsible budgetary management, increased support for sustainable energy supplies and emission reduction targets, and support for affordable energy access for Ontarians.
- Establish clear guidelines for new policy development to ensure that no new fossil fuel consumption or production subsidies are introduced that jeopardize good fiscal management and social and environmental policy objectives.



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Annex 1. Methodology

This report uses a methodology consistent with other reports published under IISD's Global Subsidies Initiative.³ In terms of types of subsidies, the report covers direct budgetary transfers and government revenue foregone.

Subsidy Definitions

In evaluating subsidies at the provincial and territorial levels in Canada, IISD uses the World Trade Organization (WTO) definition from the *Agreement on Subsidies and Countervailing Measures (ASCM)*, Article 1.1.⁴ The ASCM subsidy definition is also very close to the definition of “government support” used by the Organisation for Economic Co-operation and Development (OECD) in its inventories. The OECD has produced an inventory of support measures for fossil fuels in the OECD countries and a selection of partner countries for the past several years (OECD, 2018b). The OECD's large body of work and publications includes a table of types of support measures for around 40 countries, including Canada and its provinces and territories (OECD, 2018a). IISD also considers subsidies listed under OECD's inventories.

In this report, IISD has focused on two categories of subsidies:

- Direct budgetary transfers to producers and consumers of energy.
- Government revenue foregone in terms of uncollected or under-collected levies on energy production and consumption. For consumers, this may include energy fully or partially exempt from value-added taxes, good and services taxes and excise taxes. For producers, this may include reduced and exempt tax rates, or government provision or purchase of goods and services above or below market rates.

Both of these categories are included in the OECD inventory and are consistent with the WTO ASCM definition.

IISD considers subsidies at all stages of production and consumption: gaining access to reserves, exploration and appraisal, field development, extraction, transportation of fossil fuels, construction and operation of electricity and heat generation units, refineries, electricity transmission and distribution, consumption in the public sector, industry and household use, as well as decommissioning of fossil fuel facilities.

³ IISD recently published guidelines for completing fossil fuel subsidy reviews, *A Guidebook to Reviews of Fossil Fuel Subsidies: From self-reports to peer learning* (Gerasimchuk, Wooders, Merrill, Sanchez, & Kitson, 2017). It can be accessed at: <https://www.iisd.org/sites/default/files/publications/guidebook-reviews-fossil-fuels-subsidies.pdf>

⁴ “1.1 For the purpose of this Agreement, a subsidy shall be deemed to exist if:

(a)(1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as “government”), i.e. where:

(i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);

(ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)(1);

(iii) a government provides goods or services other than general infrastructure, or purchases goods;

(iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments,

or

(a)(2) there is any form of income or price support in the sense of Article XVI of GATT 1994;

and

(b) a benefit is thereby conferred” (WTO, n.d.)



Data Collection and Measurement

The most straightforward fossil fuel subsidy measurement has always been governments' own estimates of direct budgetary transfers and tax expenditures, which also underlie the OECD's inventory. As such, where subsidies are quantified in this document, IISD has referred to government-published data. The majority of data was obtained from provincial budgetary documents. Ancillary information on new policy developments and budget allocations was taken from primary government sources such as news releases, regulations, existing laws and program guidelines posted online. Where needed for verification, relevant government agencies were contacted directly. As this report was a desk-based study, no primary research was carried out.

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