

You

asked for it?

“I sometimes see claims that the fossil fuel industry in Canada gets billions in subsidies every year. Is that true?”

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Jeff Bowes, Research Director, answers:



by Jeff Bowes
Research Director

There are indeed some government subsidies for the fossil fuel industry. However, the subsidies aren't in the billions, and amount to much less than the taxes collected on fossil fuels. To get to the inflated figures you often hear, you'd have to be very creative in what you count as a subsidy.

Estimates of fossil fuel subsidies range from a low of \$235 million to a high of \$61 billion. But all those estimates fail to account for half of the issue: taxes. In some countries, fossil fuels are subsidized by artificially lowering the price consumers pay. In Canada, the government does the opposite: it levies extra taxes on fossil fuels, the opposite of a subsidy.

Claims about fossil fuel sub-

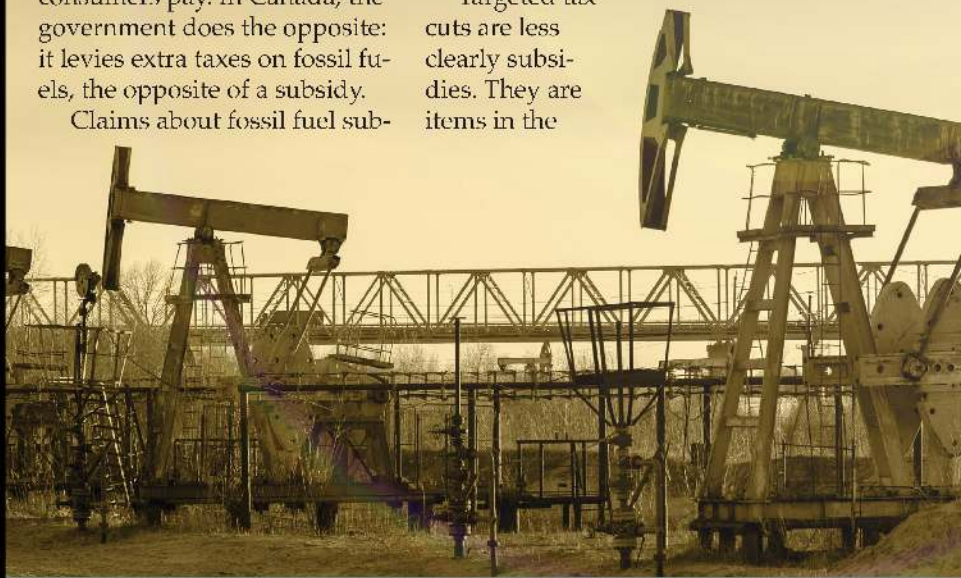
sidies usually don't account for this negative subsidy. That is a huge distortion, because the cost of the extra taxes is much higher than any reasonable estimate of the subsidies. Some taxes specifically target fossil fuels, such as excise and carbon taxes. Those taxes cost Canadian drivers around \$22 billion annually.

The claims vary so dramatically because there are three kinds of subsidies that can be included: corporate welfare, targeted tax cuts and so-called externalities. Corporate welfare is obviously a subsidy: taxpayers' money given to the fossil fuel industry, just as it is to so many other industries. It's a bad idea for the fossil fuel industry, just as it's a bad idea for Bom-

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bardier.

Targeted tax cuts are less clearly subsidies. They are items in the



tax code that include everything from the RRSP deduction to the accelerated capital cost allowance used by fossil fuel companies.

Externalities aren't subsidies, but the biggest claims about fossil fuel subsidies include them. They include indirect costs such as the cost of pollution and carbon dioxide emissions.

The highest estimates of fossil fuel subsidies are based on International Monetary Fund data, which include estimates of the costs of externalities. The IMF's 2015 data claim \$61 billion in Canadian subsidies for fossil fuel, including \$23 billion for global warming, \$20 billion for road congestion and \$8 billion for local air pollution. None of those are subsidies, but the congestion figure is especially misleading, as those costs wouldn't go away if all vehicles were converted to electric. The IMF's estimate of fossil fuel subsidies seems fanciful, but it's a convenient bludgeon for those who want to attack the fossil fuel industry.

The Global Subsidies Initiative (GSI) provides more credible data, but it is also flawed. Its most recent estimate of subsidies was \$2.3 billion in 2014. That estimate is almost entirely tax expenditures. The largest supposed subsidy in its analysis is the Alberta new well royalty reduction. Not collecting tax is different from spending it, and it's not clear that

taxing a company less is a subsidy. The claim is made that tax expenditures treat the fossil fuel industry better than others, but there are many targeted tax cuts for various industries.

Even some of the tax expenditures used by the fossil fuel industry are available to other industries.

The GSI data also include information on corporate welfare. It shows that in 2014 there was \$235 million in direct subsidies to the sector. This is where the real subsidies are. Governments across the country are spending on corporate welfare, and some of that goes to the fossil fuel industry. However, far greater subsidies go to automotive, aerospace and "green technology" companies.

Even if you consider tax expenditures to be subsidies, it's impor-

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tant to note that they are being rapidly reduced. During the last federal election, the Trudeau Liberals said they would phase out subsidies for the fossil fuel industry, a commitment that Canada and other members of the G20 have made every year since 2009. At the North American leaders' summit in 2016, Trudeau committed to phase out fossil fuel subsidies by 2025.

Since 2009, three federal tax expenditures targeting the industry have been completely phased out. Of course, eliminating tax expenditures appeals to politicians, because it results in more tax revenue.

The fossil fuel industry is uniquely targeted with exaggerated claims about government support. The subsidies are actually in the hundreds of millions, but after accounting for all the taxes levied only on fossil fuels, the industry isn't really subsidized at all. **t**

Want the CTF to tackle your question? Ask for it by e-mail at:

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