Targeted by Tax-funded Activists

Energy Subsidies: A Taxpayer Funded Attack on Oil and Gas

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ENERGY "SUBSIDIES": A TAXPAYER-FUNDED ATTACK ON OIL AND GAS

EXECUTIVE SUMMARY

A frequent claim by those who seek radically to reduce greenhouse gas (GHG) emissions in Canada and other countries is that doing this requires the elimination of large government subsidies for the production and consumption of oil and natural gas. This claim has been accepted by several governments.

The Canadian federal government has taken several measures to eliminate tax credits that previously were available to oil, natural gas and coal producers. Nonetheless, through the programs of the International Institute for Sustainable Development (IISD) and other organizations, the government continues to spend millions of dollars annually propagating the thesis that Canada and other countries must do more to eliminate any financial benefits that might accrue to those producers.

IISD's Energy program is also home to the Global Subsidies Initiative, which carries out research and seeks to influence policy concerning fossil fuel subsidies and fisheries subsidies. It serves the Beyond Oil and Gas Alliance (BOGA) whose objective is to phase out oil and gas production globally. The organization is richly funded, mainly by Canadian taxpayers. Its most recently published annual report (for 2024) indicated that it had $55.5 million in revenue that year, as well as $36.7 million in assets.

There is no universally agreed definition of what constitutes a subsidy, except that it refers to a government financial support paid out to an individual, business or organization in order to promote a certain activity.

In 2014 the Montreal Economics Institute performed an analysis it which it found that Canadian energy sector (I.e. energy production) subsidies amounted to just $71 million and that those were being phased out[1]. Finance Canada publishes an annual report of federal tax expenditures. Its most recent report indicates that since 2016 Canada has

[1] https://www.iedm.org/files/note0414_en.pdf

been phasing out tax measures that are “inefficient” fossil fuel subsidies. The tax expenditures on these former programs in 2024 were zero.

How do the subsidies to fossil fuels compare to the subsidies that governments provide to competing energy sources, and especially wind and solar energy? There unfortunately has not been a thorough study of the subsidies to renewable energy in Canada. The situation is clearer in the United States, where the Texas Public Policy Foundation has twice conducted reviews[2] of the funding provided by the US federal government.

Over the 2024 to 2027 period, subsidies to renewables are projected to be almost 12 times as high as those to fossil fuels.

How do the revenues provided by governments to encourage oil and gas development and production compare to the financial benefits that Canada derives from that development?

According to the Montreal Economic Institute, in recent years governments have collected $18 billion per year on average in taxes and royalties from oil and gas activities. This does not include personal income taxes paid to governments by hundreds of thousands of Canadians who work directly in the energy sector, property taxes and fees paid to municipalities and indigenous governments, and the billions of dollars collected in fuel taxes. (Federal fuel tax revenues from the excise taxes, Goods and Services Tax (GST), and the federal fuel charge in 2021 totaled about $9.3 billion in 2021).

It is shameful that the agencies of the Canadian government like the Office of the Commissioner of the Environment and Sustainable Development and the largely publicly-funded non-governmental organizations like the International Institute for Sustainable Development should continue to promote policies that seek to defame the oil and gas industry and deprive it of tax benefits that are broadly available to other industries. The IISD enjoys charity status; how does promoting policies that harm an industry integral to the economic prosperity of at least three Canadian provinces possibly qualify as charitable?

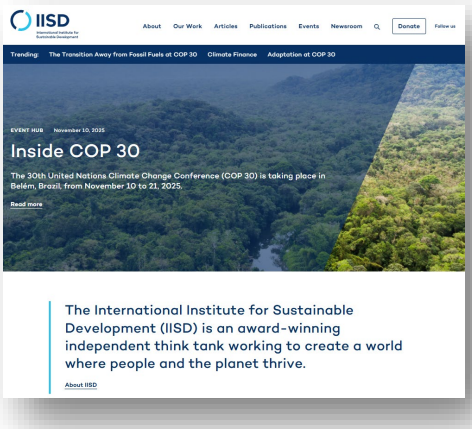
[2] https://www.texaspolicy.com/wp-content/uploads/2024/10/2024-10-LP-Federal-Energy-Subsidies-BrentBennett_FINAL-1.pdf

ENERGY "SUBSIDIES": A TAXPAYER-FUNDED ATTACK ON OIL AND GAS

A frequent claim by those who seek radically to reduce greenhouse gas (GHG) emissions in Canada and other countries is that doing this requires the elimination of large government subsidies for the production and consumption of oil and natural gas. This claim has been accepted by several governments. In September 2009, at the Group of 20 (G20) leaders' summit, the leaders present committed to "phase out and rationalize over the medium-term inefficient fossil fuel subsidies while providing targeted support for the poorest". The G20 leaders stated that inefficient fossil fuel subsidies "encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change". At the June 2016 North American Leaders Summit, Canada, the United States and Mexico committed to phase out inefficient fossil fuel subsidies by 2025. The leaders did not define what an "inefficient fossil fuel subsidy" is.

The Canadian federal government subsequently took several measures to eliminate tax credits that previously were available to oil, natural gas and coal producers. Nonetheless, through the programs of the International Institute for Sustainable Development (IISD) and other organizations, the government continues to spend millions of dollars annually propagating the thesis that Canada and other countries must do more to eliminate any financial benefits that might accrue to those producers. This thesis is based upon misleading methodologies, out-of-date information, and an absence of context. In this article, I will describe why this is so and argue that funding for the IISD's subsidy-related work should be ended.

THE IISD



The IISD describes itself as "an independent think tank working to create a world where people and the planet thrive". It was established in 1990 as a result of a decision by the Mulroney government "*to establish a centre which will promote internationally the concept of sustainable development*" and as part of Canada's contribution to preparations for what became the United Nations Conference on Environment and Development, also known as the Rio Earth Summit. **The institute may claim to be independent, but its plans and agenda are closely aligned with the international climate catastrophism network and the related work of the United Nations.** It describes the overarching pillars of its work as "climate change

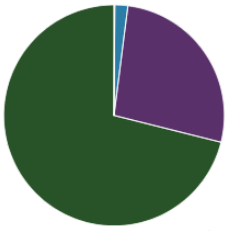
mitigation and climate change adaptation". The institute has three offices in Canada – Winnipeg, Ottawa, and Toronto – and one office in Geneva, Switzerland.

Reporting period ending: 2024-03-31

Programs and activities:

Ongoing programs:
IIS'DS PROGRAMS CONDUCT RIGOROUS RESEARCH AND ENGAGE CITIZENS, BUISNESS AND POLICY MAKERS IN THE SHARED GOAL OF DEVELOPING SUSTAINABILITY. IISD'S PROGRAM AREAS INCLUDE ECONOMIC LAW AND POLICY, WATER, TRACKING PROGRESS, ENERGY, AD RESILIENCE

Revenue



- Receipted donations $58,339.00 (0.12%)
- Non-receipted donations $0.00 (0.00%)
- Gifts from other registered charities $952,462.00 (1.90%)
- Government funding $13,439,800.00 (26.88%)
- All other revenue $35,556,560.00 (71.10%)

Total revenue: $50,007,161.00

Compensation

Total compensation for all positions	**$22,992,850.00**
Full-time employees	**176**
Part-time employees	**33**
Professional and consulting fees	**$14,545,295.00**

Compensated full-time positions:

$200,000 to $249,999	**6**
$250,000 to $299,999	**1**
$300,000 to $349,999	**2**
$350,000 and over	**1**

Operations Outside Canada

10 countries

- COSTA RICA
- GERMANY
- FRANCE
- UNITED KINGDOM
- INDIA
- ITALY
- KENYA
- Other countries in Europe
- Other countries in Africa
- UNITED STATES

Source: Canada Revenue Agency

IISD's Energy program is also home to the Global Subsidies Initiative, which carries out research and seeks to influence policy concerning fossil fuel subsidies and fisheries subsidies. It serves the Beyond Oil and Gas Alliance (BOGA) whose objective is to phase out oil and gas production globally.

Québec was the first North American government to ban all oil and gas exploration and production on its territory. This is why we were proud to be a founding member of the Beyond Oil and Gas Alliance. Through our leadership as BOGA's subnational co-chair, we encourage other governments to join us.

Bernard Drainville
Minister of the Environment, the Fight against Climate Change, Wildlife and Parks of the Government of Québec, and co-Chair of BOGA

Emissions reductions this decade are essential to combat the climate crisis. I applaud the Beyond Oil and Gas Alliance for bringing critical focus to a managed and just transition away from fossil fuels and encourage leaders in both the public and private sectors to do their part to close the gap between stated climate commitments and reality.

Al Gore
Former Vice President of the United States and Founder and Chairman of the Climate Reality Project

All members must support the BOGA Declaration.

The IISD organization is richly funded, mainly by Canadian taxpayers. Its most recently published annual report (for 2024) indicated that it had $55.5 million in revenue that year, as well as $36.7 million in assets. Its total accounts receivable at year end 2024 included $32.784 million from the Canadian federal government.

IISD has published a number of influential papers against the development of LNG. IISD is funded by parties outside Canada as well as by Canadian taxpayers. To what extent is this foreign interference, which may benefit a climate agenda, or may, in fact, benefit competitor nations?

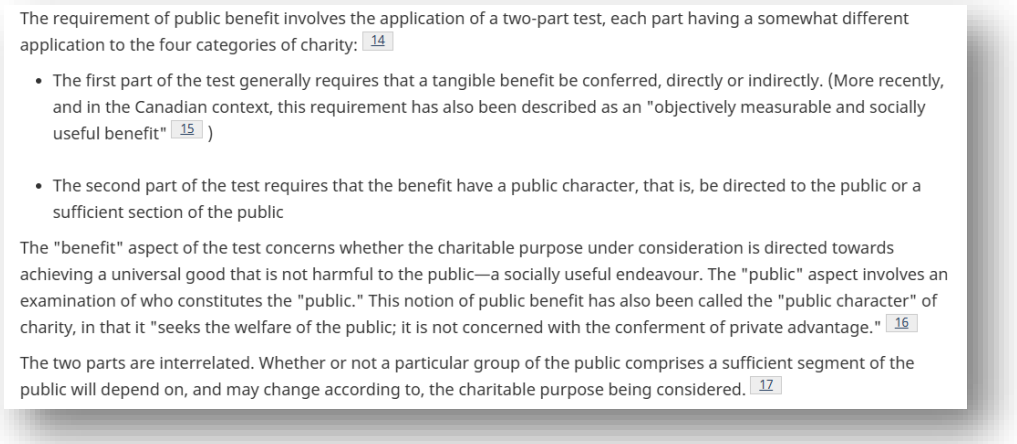
https://www.iisd.org/articles/deep-dive/lng-expansion-canada-not-worth-risk

The institute has published a study in which it estimated the tax subsidies for fossil fuels in Canada. It used what should be considered an "expansive" definition of tax subsidies (a point I will discuss later in this article) and concluded that in 2019-2020 it was able to identify 12 programs providing direct transfers to the Canadian oil and gas industry. It has repeatedly quoted the results of a paper by Gorkal, Levin and Gass[3] in 2020 claiming that in 2018 and 2019 Canadian governments had 128 active expenditure and tax subsidy programs benefitting the oil and gas industry the value of which was approximately $4.8 billion per year.

[3] https://www.iisd.org/system/files/publications/canada-fossil-fuel-subsidies-2020-en.pdf

The institute has also filed submissions to Environment and Climate Change Canada and to the Office of the Commissioner for Environment and Sustainable Development urging that Canada take action to cancel all financial benefits for the oil and gas industry. **Its papers are posted on its website and frequently used to influence members of the general public who seek information about climate issues.**

Charity Requirement - Net Public Benefit



The requirement of public benefit involves the application of a two-part test, each part having a somewhat different application to the four categories of charity: 14

- The first part of the test generally requires that a tangible benefit be conferred, directly or indirectly. (More recently, and in the Canadian context, this requirement has also been described as an "objectively measurable and socially useful benefit" 15)
- The second part of the test requires that the benefit have a public character, that is, be directed to the public or a sufficient section of the public

The "benefit" aspect of the test concerns whether the charitable purpose under consideration is directed towards achieving a universal good that is not harmful to the public—a socially useful endeavour. The "public" aspect involves an examination of who constitutes the "public." This notion of public benefit has also been called the "public character" of charity, in that it "seeks the welfare of the public; it is not concerned with the conferment of private advantage." 16

The two parts are interrelated. Whether or not a particular group of the public comprises a sufficient segment of the public will depend on, and may change according to, the charitable purpose being considered. 17

Source: Canada Revenue Agency
Canadian charities are required to provide a 'net public benefit.'
In light of IISD's persistent attacks on Canada's economically rewarding industries, often using activist materials in an economically destructive manner, what is the net public benefit?

THE CHALLENGE OF DEFINING A SUBSIDY

Part of the difficulty of estimating the subsidies paid to any industry or person rests on the fact that there is no universally agreed definition of what constitutes a subsidy, except that it refers to a government financial support paid out to an individual, business or organization in order to promote a certain activity. Professor Ross McKitrick, in a 2017 paper[4], summarized the debate concerning energy subsidies as follows:

"*There is an extensive academic and grey literature estimating energy subsidies at the national level: see survey by Lin and Li (2012) as well as the country-specific studies at the Global Subsidies Initiative.*

[4] https://ideas.repec.org/p/gue/guelph/2016-09.html

(http://www.iisd.org.gsi/fossil-fuel-subsidies June 7, 2016). The elusive nature of the quest shows up at the national level as well. Koplow and Dernback (2001) examined ten estimates of US energy subsidies over the preceding two decades and found a range from $200 million to $1.7 trillion annually, thus spanning three orders of magnitude. The large range is due entirely to conflicting definitions of what constitutes a subsidy. Kojima and Koplow (2015) provide a review of the methodologies for national and global subsidy estimations with an emphasis on the difficulties of achieving a single workable definition. Country-specific studies can yield surprisingly ambiguous results as to whether domestic subsidies even exist (for example, Nwachukwu and Chike, 2011), or how to define and measure them (contrast Sawyer and Siebert (2010) and Mintz (2011) in the Canadian case.)

While I greatly admire Professor's work, I do not think that the differences in the definitions are really due to detached academic analysis rather than the political views of some of those doing the analysis. **There is a political agenda at work here.** The International Monetary Fund (IMF) published a working paper in 2019 in which it concluded that the governments of the world were subsidizing fossil fuels by US $5.2 trillion annually. Its definition of subsidies included financial benefits derived by both producers and consumers. Thus, for example, immense "subsidies" were allegedly being paid to consumers in many countries that are large oil and gas producers because the governments in those countries did not impose consumer fuel taxes as high as those imposed in Europe. This Eurocentric perspective is also aligned with the efforts of the Green political parties in Europe and elsewhere to vilify the global oil and gas industry. **The IMF study alleged that subsidies to Canadian oil and gas were worth $34 billion.**

Most of the subsidies to producers and consumers were calculated as the differences between the prices that producers and consumers pay and those they would pay if all environmental and social "externalities" (e.g. local air pollution, climate change, traffic congestion, road accidents and health impacts) were reflected in the prices. **Treating externalities as though they were clear and self-evident financial costs is misleading.** The previously referenced paper by Gorkal, Levin and Gass used a definition similar to that of the IMF.

The methodology used by the IMF has been critiqued by several sources. Notably, economists Jack Mintz and Kenneth McKenzie[5] criticized the fact that the different tax expenditure programs were simply added together to arrive at a total figure for oil industry subsidies. According to them, **tax experts consider the method completely illegitimate and misleading.**

Reacting to the IMF study, in 2014 the Montreal Economics Institute performed an analysis it which it found that Canadian energy sector (I.e. energy production) subsidies amounted to just $71 million and that those were being phased out[6].

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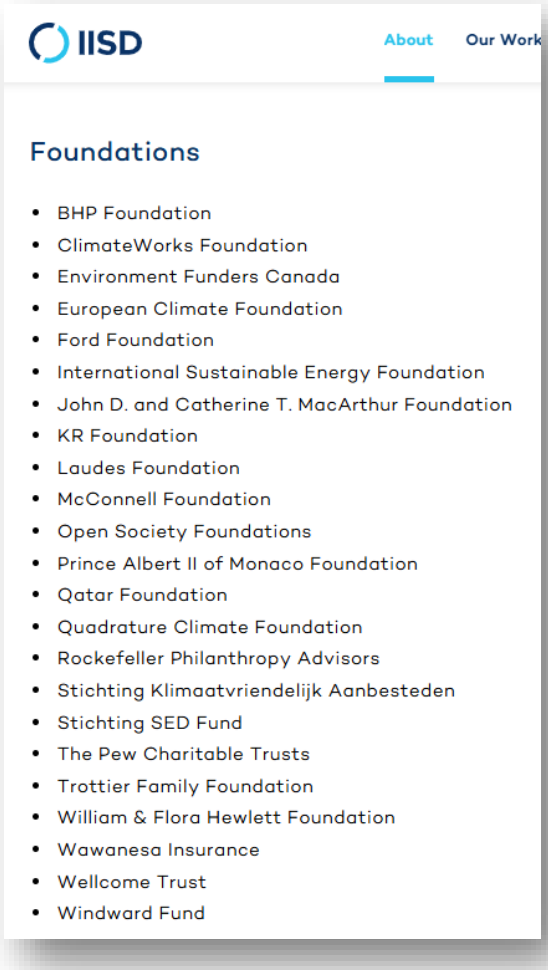
[5] https://journalhosting.ucalgary.ca/index.php/sppp/article/view/42638
[6] https://www.iedm.org/files/note0414_en.pdf

Calculating the actual amount of "subsidies" is complicated by the difficulty of assessing that portion of the subsidies represented by "tax expenditures". Tax expenditures are the foregone revenues to a government when it grants a taxpayer a deduction or exemption from a generally-applied tax. One example that everyone will be familiar with is the personal income tax exemption on the capital gains from the sale of a principal residence. The government treats the revenue that it might have collected taxing those capital gains as an expenditure. Similarly, historically there were provisions in the corporate income tax regime that allowed oil and gas companies to accelerate the deduction of depreciation of capital costs incurred in building certain facilities. **In effect, these deductions provided an incentive to invest, which a company could only gain if it invested.** The value of the tax expenditure is the difference between the revenue that the government could have collected (assuming it has the right to collect whatever it wants) and the revenue that it did collect. There are often debates about what the correct amount actually is.



Several of the Foundations listed as funders of IISD have also been funders of the decades-long, multi-billion-dollar Tar Sands Campaign, against Canada's energy sector. Qatar is certainly a global LNG competitor nation. The Trottier Family Foundation claims responsibility for pushing for the cap on emissions announced at COP28.

https://www.iisd.org/mission-and-goals/funders .

WHAT IS THE REAL VALUE OF THE FEDERAL TAX SUBSIDIES TO OIL AND GAS?

Finance Canada's publishes an annual report of federal tax expenditures. Its most recent report indicates that since 2016 Canada has been phasing out tax measures that are "inefficient" fossil fuel subsidies. Nine tax measures supporting the fossil fuel sector have been phased out or rationalized. Notably, the tax expenditures in respect of the following tax measures have been phased out:

- Accelerated Capital Cost Allowance for liquified natural gas facilities
- Accelerated Capital Cost Allowance for coal mining and oil sands assets
- Accelerated deductibility of pre-production development expenses
- Earned depletion for oil and gas and coal mining
- The flow-through share deductions for oil and gas and coal mining
- The reclassification of expenses under flow-through shares
- The Atlantic Investment Tax Credit for oil and gas and coal mining

The tax expenditures on these former programs in 2024 were zero.

That, of course, has not satisfied climate activists or those within the federal government climate agencies. In its 2019 report, the Office of the Commissioner of the Environment and Sustainable Development (CESD), a branch of the Office of the Auditor General, found that Finance Canada's "*assessments to identify inefficient tax subsidies for fossil fuels were incomplete, and that advice provided to the Minister was not based on all relevant and reliable information*". **To its credit, Finance Canada disagreed with the CCSD report**. In reply, it stated:

"*In the context of the G20 commitment, the term "inefficient" is not susceptible to the use of simple criteria, given the breadth of potential issues that may need to be considered. The Department of Finance Canada has instead developed a comprehensive framework to assess whether a tax measure may constitute an "inefficient fossil fuel subsidy... It would not be practical to develop assessments that systematically devote equal attention to economic, social and environmental sustainability. Depending on the analysis, some types of considerations may naturally be more prevalent and relevant than others. That being said, the Department consistently ensures that its analysis covers all relevant considerations."*

In short, the former tax expenditures befitting the oil, gas and coal industries have been eliminated and Finance Canada rejected the argument that it should redefine its approach to place climate considerations above all others in determining what is "efficient".

THE IMPORTANCE OF CONTEXT

The IISD and others' focus on the alleged subsidies to fossil fuels ignore two extremely important contextual issues, namely:

- How do the subsidies to fossil fuels compare to the subsidies that governments provide to competing energy sources, and especially wind and solar energy?
- How do the revenues provided by governments to encourage oil and gas development and production compare to the financial benefits that Canada derives from that development?

SUBSIDIES TO RENEWABLES

There unfortunately has not been a thorough study of the subsidies to renewable energy in Canada. All that we can do is to list the more obvious ways in which federal and provincial governments have granted significant financial advantages to wind, solar and biomass energy sources that are not provided to "conventional" energy sources. These include:

- Assistance to research and development
- Regulatory requirements that require reductions in the use of fossil fuels for electricity generation
- Granting of renewables "first to the grid" rights over less expensive energy sources
- Negotiating purchases of power from renewables at rates far above those paid to competing energy sources
- Generous tax deductions and investment credits
- Exemption from local government land use planning and taxation
- Preferred status for government procurement

The situation is clearer in the United States, where the Texas Public Policy Foundation has twice conducted reviews[7] of the funding provided by the US federal government. In its most recent report, it found that in the period 2020 to 2023, federal subsidies to solar energy totaled US $33.2 billion, those to wind totaled US $21.1 billion, and those to bioenergy totaled US$24.3 billion. Subsidies to oil and natural gas in the same period totaled US 11.3 billion and those to coal were US $3.0 billion. **In other words, the subsidies to renewables were more than five times higher than those to fossil fuels during this period.**

[7] https://www.texaspolicy.com/wp-content/uploads/2024/10/2024-10-LP-Federal-Energy-Subsidies-BrentBennett_FINAL-1.pdf

During the period 2024-2027, the Texas Public Policy Foundation projected that the US federal government subsidies to solar energy will be US $80.3 billion and to wind US $35.1 billion, while there was insufficient data to project the likely subsidies to bioenergy. Those to oil and gas are projected as US $9.1 billion and those to coal US 0.8 billion. **That is, over the 2024 to 2027 period, subsidies to renewables are projected to be almost 12 times as high as those to fossil fuels.**

These projections were made before the Biden Administration greatly increased subsidies to "clean energy" (i.e. including renewables, hydrogen, electric vehicles, residential and industrial energy efficiency and carbon dioxide sequestration) in the *Inflation Reduction Act of 2022* (IRA). The cost of the IRA subsidies to "green energy" were estimated by the US Congressional Budget Office (CBO) and the Congressional Joint Committee on Taxation as likely to cost US $400 billion through the period to 2031. **The US FY 2025 Budget projected that the IRA subsidies would cost almost US $1.1 trillion over that period.**[8]

FINANCIAL BENEFITS TO CANADA FROM OIL AND GAS DEVELOPMENT

If subsidies can be considered costs to the Canadian public, it would seem to make sense to weigh these against the financial payback to Canada from the industry receiving the subsidies.

According to the Montreal Economic Institute, in recent years governments have collected $18 billion per year on average in taxes and royalties from oil and gas activities. This does not include personal income taxes paid to governments by hundreds of thousands of Canadians who work directly in the energy sector, property taxes and fees paid to municipalities and indigenous governments, and the billions of dollars collected in fuel taxes. (**Federal fuel tax revenues from the excise taxes, Goods and Services Tax (GST), and the federal fuel charge in 2021 totaled about $9.3 billion in 2021)**.

The payments to governments represent only a small part of the economic impact of the oil and gas extraction sub-industry as defined by Statistics Canada. **In 2024, this sub-sector accounted for $74 billion, or 3.3%, of Canada's GDP. It was the largest goods-producing industry in Canada.** It is 31% bigger than the next largest sub-industry (Engineering and other Construction Activities). It produces Canada's largest exports by value ($106 billion in 2023). It spends more on research and development than almost any other sector and thus plays a key role in technological innovation.

[8] https://www.instituteforenergyresearch.org/regulation/the-inflation-reduction-act-bloats-tax-subsidies-to-bidens-favorite-green-technologies/

Even if one accepted the now-out-of-date Montreal Economics Institute Estimate in 2014 that the oil and gas industry received $71 million in federal subsidies, these constitute a pittance in comparison with the value of the economic and financial benefits derived from the industry. Further, all of the federal government "subsidies" to oil and gas are investment incentives.

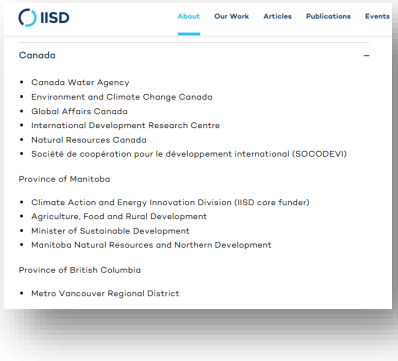
CONCLUSION

What constitutes a "subsidy" is largely in the eye of the beholder. There is little agreement on how to define them and the definitions offered by international organizations like the IMF seem politically motivated to encourage divestment in fossil fuel industries. The task of defining a subsidy is further complicated by G20 governments' claim to focus on "inefficient" subsidies without defining what that means.

Quantifying the levels of past or current financial assistance to fossil fuels or other energy sources is virtually impossible due to the lack of accepted definitions and, in the case of renewables, failure of Canadian governments to report the data. **Based on data from the United States, the subsidies to renewables far exceed those to fossil fuels, even though fossil fuels continue to provide about three quarters of the energy consumers need.**

Whatever tax and other financial benefits may have been provided by the federal government to oil and gas industries in Canada in the past, those were eliminated around 2016.

It is shameful that the agencies of the Canadian government like the Office of the Commissioner of the Environment and Sustainable Development and the largely publicly-funded non-governmental organizations like the International Institute for Sustainable Development should continue to promote policies that seek to defame the oil and gas industry and deprive it of tax benefits that are broadly available to other industries. **The IISD enjoys charity status; how does promoting policies that harm an industry integral to the economic prosperity of at least three Canadian provinces possibly qualify as charitable?**



Canadian federal or provincial government department funders listed under "contributions of 10,000 CAD and above."
https://www.iisd.org/mission-and-goals/funders

The Federal government should withdraw its support for the poorly-defined goal of eliminating "inefficient" subsidies to fossil fuels and condition its continued funding of IISD on that organization ending the Global Subsidies Initiative.

ABOUT THE AUTHOR

Robert Lyman is an economist with 27 years of experience as an analyst, policy advisor and manager in the Canadian federal government, primarily in the areas of energy, transportation, and environmental policy. He was also a diplomat for 10 years. Subsequently he has worked as a private consultant conducting policy research and analysis on energy and transportation issues as a principal for Entrans Policy Research Group. He is a frequent contributor of articles and reports for Friends of Science, a Calgary-based independent organization concerned about climate change-related issues. He resides in Ottawa, Canada. Full bio.

ABOUT FRIENDS OF SCIENCE SOCIETY

Friends of Science Society is an independent group of earth, atmospheric and solar scientists, engineers, and citizens that is celebrating its 23rd year of offering climate science insights. After a thorough review of a broad spectrum of literature on climate change, Friends of Science Society has concluded that the sun is the main driver of climate change, not carbon dioxide (CO2).

Friends of Science Society

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