

COMMENTARY

Meeting Canada's Subsidy Phase-Out Goal: What it means in Saskatchewan

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In May 2016 the Government of Canada, along with other G7 countries, committed to a much-needed timeline to phase out fossil fuel subsidies. These countries committed to end fossil fuel subsidies by 2025, attaching a target year to the previous commitments to phase out subsidies for fossil fuels.

This is not a new idea for Canada. In the 2015 federal election, the Liberals and all other parties¹ committed to fulfilling Canada's G20 commitment to phase out subsidies for the fossil fuel industry. After the election, the Canadian government followed this up by endorsing an international communiqué² calling for swift and ambitious action to remove fossil fuel subsidies.

A recent IISD/ODI/OCI report, *G20 Subsidies to Oil, Gas and Coal production: Canada*,³ identified CAD 2.9 billion in subsidies for fossil fuel production, giving an indication of the scale of the challenge.

This, however, is only part of the story. The G20 report only focused on subsidies to fossil fuel producers, rather than both consumer and producer subsidies. In an effort to better communicate the full scale of what it means for Canada to eliminate fossil fuel subsidies, IISD will be taking a look at both types of subsidies through a series of briefing notes, along with a consideration of where action is already taking place and where more can be done.

This briefing note focuses on consumer subsidies in Saskatchewan. Consumer subsidies include tax reductions and exemptions, direct financial supports and other fiscal policies that encourage the burning of fossil

fuels. These policies in turn lead to greater greenhouse gas emissions by lowering the cost of fuels that create them. Reforming these policies can also open fiscal space to support initiatives like renewable energy development and reducing greenhouse gas emissions instead of increasing them.

Saskatchewan has taken some steps to reduce its greenhouse gas emissions, such as investing in carbon capture and storage (CCS) at SaskPower's Boundary Dam site. The Government of Saskatchewan estimates that this project led to the capture of approximately 400,000 tonnes of carbon dioxide in its inaugural year.⁴ However, the government has thus far been reluctant to implement fiscal policy options such as a carbon tax, a cap-and-trade system, or subsidy reform for reducing emissions and opening fiscal space for sustainable development. This is reflected in the government's position on carbon pricing. The government has not argued flat-out against the concept of pricing, however, noting "We haven't ruled it out,"⁵ but states that "now is not the time"⁶ for a carbon price in Saskatchewan.

IISD has previously analyzed producer subsidies in Saskatchewan, estimating an annual value of roughly CAD 327 million per year.⁷ This briefing note takes a very preliminary look at the consumer side of the issue. Our initial research identifies roughly CAD 182 million in 2015 in the form of financial supports for the consumption of fossil fuels.

⁴ <http://www.environment.gov.sk.ca/climatechange>

⁵ <http://www.montrealgazette.com/business/saskatchewan+brad+wall+says+open+broader+carbon+price/11831916/story.html>

⁶ <http://www.nationalpost.com/saskatchewan+premier+brad+wall+renews+attacks+possibility+federal+carbon+defends+energy+east/11986008/story.html>

⁷ http://www.iisd.org/gsi/sites/default/files/ffs_awc_3canprovinces.pdf

¹ <https://www.iisd.org/blog/fossil-fuel-subsidy-reform-canada-post-partisan-issue>

² <http://ffsr.org/wp-content/uploads/2015/07/ffs-communicue-briefing-note.pdf>

³ <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9988.pdf>



The removal of environmentally harmful subsidies that support production and consumption of fossil fuels is a companion to carbon pricing that should also be examined. Subsidizing fossil fuel use places cleaner fuels at an economic disadvantage, stunting their development and hindering efforts to meet greenhouse gas mitigation targets.

Fossil fuel subsidies also represent a budgetary pressure, and their reform can open significant fiscal space for governments to support low-carbon development, especially when combined with reinvestment of carbon pricing revenues.

It is also important to acknowledge that these subsidies and fiscal supports may have been put in place for specific and justified reasons. The removal of consumer energy subsidies can have a direct impact on vulnerable communities, including those that may not have the income to easily adjust to removal of these subsidies. This also applies to the private sector, including energy-intensive industries that will see their profits affected by changes in energy price. For this reason, it is necessary to look at how to combat the negative impact of subsidy removal and ensure that programs, policies and supports are in place to aid transition. IISD looks at some options below following the examination of subsidies.

We have included estimates of some prominent supports for fossil fuel use in Saskatchewan in Table 1, which have been cross-referenced with figures published by the Organisation for Economic Co-operation and Development (OECD).⁸ If Canada is to eliminate fossil fuel subsidies by 2025, it will have to work with Saskatchewan to address the following subsidies in one manner or another.

Table 1. Fossil fuel subsidies in Saskatchewan primarily targeting consumers (estimates are in CAD)⁹

Subsidy	2013	2014	2015
Sales Tax Exemption for Natural Gas	22,100,000	23,600,000	26,400,000
Fuel Tax Exemption (Farm Activity)	106,800,000	115,300,000	121,000,000
Fuel Tax Exemption (Heating Fuels)	26,300,000	28,900,000	33,100,000
Fuel Tax Exemption (Primary Producers)	1,200,000	1,700,000	1,700,000

Sales Tax Exemption for Natural Gas

Saskatchewan has a sales tax exemption in place for natural gas used for heating that acts as a reduction in price. Saskatchewan's provincial sales tax (PST) is 5 per cent. In 2013/2014 this sales tax represented over CAD 1.4 billion in revenue for the province.¹⁰

The value of this exemption has fluctuated over the past years, as it is tied to both natural gas prices and consumption patterns that can be influenced by winter temperatures; however, it has consistently ranged between CAD 22.1 million and CAD 44.9 million per year since 2006. In 2015, the value of this exemption was CAD 26.4 million. This figure represents a value equal to almost 2 per cent of annual PST revenue for the province.

Fuel Tax Exemptions

Saskatchewan also has fuel tax exemptions in place for farm activity, heating fuels and primary producers. Clear diesel and gasoline are subject to a tax rate of 15 cents per litre in Saskatchewan,¹¹ while exemptions are in place for the three aforementioned usages.

The Farm Fuel Program¹² allows permit holders to purchase 80 per cent of their gasoline tax exempt from registered dealers. This is equivalent to paying a fuel tax of 3 cents per litre providing that the fuel is used in a farming or primary producing activities. Diesel and propane may also be purchased exempt of tax for use in farm and primary producing activities (the general tax rate for

⁹ The table summarizes identified and potential subsidies from the sources identified. Sources include the OECD database as well as Saskatchewan policy/budget documents. OECD source: http://stats.oecd.org/Index.aspx?DataSetCode=FFS_CAN, Saskatchewan sources/provincial budgets: <http://finance.gov.sk.ca/budget2015-16/201516Budget.pdf>, <http://finance.gov.sk.ca/budget/>, <http://finance.gov.sk.ca/budget2014-15/2014-15CoreOperationalPlan.pdf>

¹⁰ <http://finance.gov.sk.ca/taxes/pst/>

¹¹ <http://finance.gov.sk.ca/taxes/ft>

¹² <http://finance.gov.sk.ca/programs-services/farmfuel/>

⁸ http://stats.oecd.org/Index.aspx?DataSetCode=FFS_CAN



propane is 9 cents per litre). The fuel purchased is marked and the permit required may be obtained by contacting the Farm Fuel Program

A permit is not needed to purchase marked diesel fuel if it is intended solely for heating purposes.¹³ Bulk fuel dealers must keep records on fuels sold for heating, recording the purchaser's name and verifying the use of the fuel (e.g., by delivering the fuel to the customer).

Commercial loggers may also use marked diesel fuel for unlicensed equipment while engaged in logging or reforestation activities.

The examples of marked transport fuels as well as exemptions for natural gas for residential heating are replicated in other provinces. They also present a caution for fossil fuel subsidy reform, as they represent an attempt to assist the agriculture sector and energy consumers in dealing with energy input costs. The implications for economic competitiveness of the agriculture sector as well as the social implications for low-income households are important to consider. The challenge for government is in looking at reforming these fossil fuel supports and finding ways to remove these supports for fossil fuel use while retaining the social and economic benefits they entail.

In terms of the Saskatchewan Farm Fuel Program specifically, there have been questions raised over its efficiency,¹⁴ noting that the objective and desired outcomes of the program are not clearly defined in its current structure.¹⁵

Could the foregone revenue from fossil fuel sales be spent on more sustainable alternatives, such as programming for increased efficiency for renters or homeowners? These are the types of questions that need to be examined. All told these fuel tax exemptions represented almost CAD 155 million in foregone revenues in 2015.

Other Undefined Supports

There are other supports for fossil fuel use that were identified, but could not be quantified for the foregone revenue that they represent on an annual basis due to a lack of data or a need for more detailed consideration of the characteristics of the program.

One of these is the Gasoline Competition Assistance Program.¹⁶ This program is intended to assist service station owners along the Saskatchewan borders with Alberta and Manitoba compete with fuel sales by providing a commission for gasoline and propane sold. This commission varies but is a value between 25 and 100 per cent of the tax differential between Alberta/Manitoba and Saskatchewan determined by which provincially designated "zone" they are in. Generally, the closer to the border the service stations are, the greater the commission.

Addressing Unwanted Impacts of Reform

One of the biggest challenges in reforming fossil fuel subsidies is addressing unwanted impacts. Communities, employees and business owners can be assisted in a transition away from fossil fuels that may require them to change usage patterns or fuel sources. It helps to understand that there are viable options that can assist these groups and mitigate unwanted impacts. Identifying these early also helps to keep minds open and solution-oriented in the face of reforms.

While these are unique to each jurisdiction, IISD has offered some general guidance before that is a useful starting point. The IISD publication *A Guidebook to Fossil-Fuel Subsidy Reform for Policy-Makers in Southeast Asia*¹⁷ offers a number of options, outlined in Table 2 below.

Not all of these mechanisms may be applicable to Saskatchewan, but they provide a starting point for discussion on not only where and how we should look for reforms, but also how unwanted impacts can be mitigated.

¹³ <http://finance.gov.sk.ca/commonquestionsFuelTax>

¹⁴ <http://www.producer.com/2016/06/auditor-casts-doubt-on-sask-farm-fuel-tax-exemption/>

¹⁵ https://auditor.sk.ca/pub/publications/public_reports/2016/Volume_1/2016_V1_Full_Report.pdf

¹⁶ <http://finance.gov.sk.ca/Default.aspx?DN=e975ba85-74c0-4b7d-bb86-6c25fada3f42>

¹⁷ https://www.iisd.org/gsi/sites/default/files/ffs_guidebook_exec.pdf

**Table 2. Common mitigation measures: Addressing unwanted impacts of reform¹⁸**

Fiscal	
Mechanism	Desired Impact
<ul style="list-style-type: none"> • Redirect a proportion of subsidy savings into measures that can mitigate impacts (e.g., funding for implementation of renewable energy, or energy-efficiency retrofit programs) 	<ul style="list-style-type: none"> • Depends on focus of expenditure
Macroeconomic	
Mechanism	Desired Impact
<ul style="list-style-type: none"> • Gradual phase-out approach • Temporary reduction in other fees or taxes (e.g., business taxes) 	<ul style="list-style-type: none"> • Dampen GDP and inflationary impact • Counteract price increase
Business and economic sectors	
Mechanism	Desired Impact
<ul style="list-style-type: none"> • Gradual phase-out • Short-term compensation for key sectors (e.g., increased sectoral investments) • Support energy-efficiency audits • Extend and increase access to credit facilities, favourable loans 	<ul style="list-style-type: none"> • Industries can adapt, less shock for exporting sectors • Help cope with price increase, gives time to adapt • Help identify energy-efficiency opportunities • Help businesses spread impact over a longer period or pay for energy-efficiency investments
Households and social welfare	
Mechanism	Desired Impact
<ul style="list-style-type: none"> • Increase budget of agencies or funds with purview over social assistance and energy access • Health and education assistance (e.g., facilities and programs, supplies, improve access) • Infrastructure programs (e.g., expanded/improved public transport) • Welfare transfers: increase non-taxable income, minimum wage, cash transfers (conditional and unconditional), subsidize certain socially important goods 	<ul style="list-style-type: none"> • Address social impacts using existing capacity, scale up existing mechanisms • Lower living cost; improve health-related welfare and economic prospects in medium to long term • Improve welfare by: i) increasing access to goods and services; ii) promoting general economic prosperity, related to infrastructure; and iii) providing employment associated with construction. • Reduce social impacts on cost of living by supplementing household incomes with cash (directly or indirectly) or other goods by lowering costs of other goods.
Environment	
Mechanism	Desired Impact
<ul style="list-style-type: none"> • Invest in enforcement of existing regulations (i.e., preventing cheating, levelling the playing field) • Programs to foster sustainable fuel (e.g., biomass supports) • Investment in clean energy technologies (e.g., geothermal, off-grid renewables) 	<ul style="list-style-type: none"> • Sustainable exploitation of natural resources • Sustainable biomass • Reduce or prevent negative impacts of fuel switching

¹⁸ https://www.iisd.org/gsi/sites/default/files/ffs_guidebook_exec.pdf



Conclusion

Saskatchewan has taken steps to address its greenhouse gas emissions, most notably through the implementation of CCS technology. This is definitely a step in the right direction in addressing climate change.

However, as long as fossil fuel subsidies and other financial supports exist, they will continue to challenge efforts to reduce emissions in Saskatchewan as well as meeting Canada's G7 subsidy elimination target.

The supports for fossil fuel use identified here are a good place to start to look at reforms. They are not the only supports in place, and we also suggest increased transparency on the foregone revenue represented by the additional, unquantified items.

Subsidy reform should be bundled with other policies that help affected industries and workers to adjust. Here the federal government will need to work closely with the provinces, including Saskatchewan, if it is serious about full elimination by 2025.

We understand that there may be strong reasons for these subsidies, but that does not counteract the fact that they will continue to lead to elevated greenhouse gas emissions, as well as stunt the opportunity for cleaner alternatives and green jobs, not to mention tying up significant budgetary space for government in terms of foregone revenue.

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