FOSSIL FUEL SUPPORT COUNTRY NOTE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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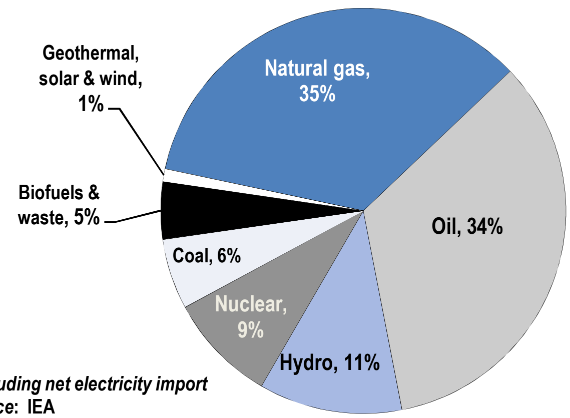
Canada

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Total Primary Energy Supply* in 2017



**excluding net electricity import*
Source: IEA

Canada has substantial and diversified fossil-energy resources that allow the energy sector to make a significant contribution to the economy. It is a net exporter of oil, natural gas, and coal, as well as uranium (being the world's second largest producer) and electricity (the majority of it, hydropower-based). Canada has the third-largest proven oil reserves in the world after Saudi Arabia and Venezuela, most of which is in the form of oil sands. Production from oil sands has grown rapidly in recent years, offsetting a decline in output of conventional oil. Proven natural-gas reserves have risen in the last few years, mainly thanks to the development of shale gas and other unconventional sources of gas (e.g. coal-bed methane), with overall production and exports (entirely to the United States) increasing again after a drop in 2014 and 2015. Overall, Canada exports more than half of its energy production.

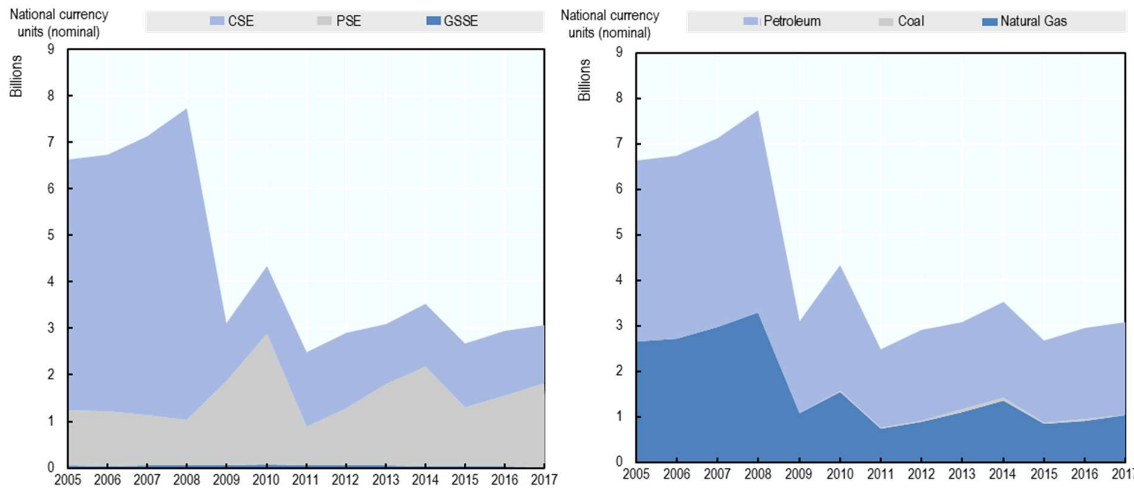
Canadian energy policy generally relies on competitive markets for determining supply, demand, prices, and trade. As a result, the upstream petroleum industry in Canada is highly competitive, with hundreds of firms operating in the country. In the natural-gas sector, the gathering and transmission pipeline network is owned and operated by several private companies. Gas-distribution assets are also typically owned and operated by private companies that have exclusive rights to distribute gas in a given regional or local area. Distribution companies are most often the only retailer in their concession area. In general, the provinces have jurisdictional responsibility for the resources that lie within their boundaries and are therefore responsible for overseeing the industry operating there. Regulation of the "international and inter-provincial aspects of the oil, gas and electric utility industries" is carried out by the National Energy Board.

Canada's electricity industry is highly integrated, with the bulk of generation, transmission, and distribution services provided by a few dominant utilities, most of which are Crown corporations owned by provincial governments.

Energy prices and taxes

The prices of most energy products sold in Canada are unregulated although retail oil price controls remain in place in some provinces. These provincial controls set a maximum retail price, a minimum price, or both. Natural-gas and electricity tariffs are regulated in most provinces by a quasi-judicial board or commission on a cost-of-service basis. A federal goods and services tax (GST) or, in participating provinces, harmonized sales tax (HST), is levied on all fuels and energy services. Federal excise taxes are also imposed on motive fuels, namely leaded and unleaded gasoline, diesel fuel, and aviation fuels used on domestic flights. In addition to federal excise taxes, the provinces also levy their own specific taxes on fuels, with some provinces also applying carbon levies or taxes. Effective 1 April 2019, a federal charge on fossil fuels that is part of the federal carbon pollution pricing system applies in the provinces of New Brunswick, Ontario, Manitoba and Saskatchewan.

Total support for fossil fuels in Canada by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate, PSE=Producer Support Estimate, GSSE=General Services Support Estimate.

Recent developments and trends in support

Several measures supporting the production and consumption of fossil fuels remain in place in Canada as of 2019, though total support has generally declined since 2008. One driver behind this development has been the phase out or rationalisation of multiple federal measures supporting the fossil fuel sector, including oil sands. Most recently, the 2017 Federal announced the phase out of the tax preference allowing small oil and gas companies to reclassify certain development expenses as more favourably treated exploration expenses and rationalisation of the tax treatment of expenses for successful oil and gas exploratory drilling.

Canada has recently launched a public consultation process on their approach to federal non-tax inefficient fossil fuel subsidies.[1] The consultation is live between 29 March 2019 and 30 June 2019. In addition to the public consultation, Canada is undertaking targeted consultations on its approach to federal non-tax measures.

Several provinces continue to provide support for the extraction sector through targeted royalty concessions and research and development (R&D) spending, as is the case in Alberta, British Columbia, and Saskatchewan. With taxation in Canada being a shared responsibility between federal and sub-national governments, there are provincial measures that support the consumption of fossil fuels, largely in the transport sector and primary industries through tax concessions. Direct payments are also sometimes used by provinces to support the consumption of energy by low-income households.

Examples of measures	
Deep Drilling Credit (British Columbia only) (2003-)	This measure encourages the drilling of deep, high-cost, natural-gas wells in British Columbia through a royalty credit. Latest reports in 2017 value this measure at CAD 270 million.
Funding for Geoscience British Columbia (2005-)	Geoscience BC, a non-governmental, not-for-profit organisation, was set up in April 2005 to encourage investment in minerals and hydrocarbons exploration in British Columbia through the collection and diffusion of geophysical data.

1 https://www.canada.ca/en/environment-climate-change/services/climate-change/consultation-approach-non-tax-inefficient-fossil-fuel-subsidies.html