

### **Fossil Fuels: At What Cost?**

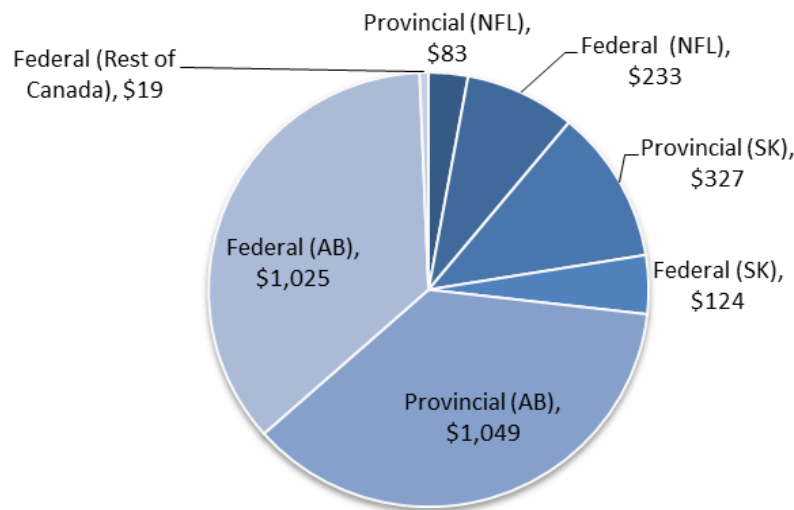
[Government support for upstream oil activities in three Canadian provinces:  
Alberta, Saskatchewan, and Newfoundland and Labrador](#)  
(link will be live at 11 a.m. EST, Tuesday, November 2, 2010)

#### **Key Findings**

Canadian federal and provincial governments provided \$2.84 billion to support oil production in 2008.

The federal government's share of subsidies in 2008 was \$1.38 billion. Within the provincial governments, Alberta was estimated at \$1.05 billion, Saskatchewan at \$327 million and Newfoundland & Labrador at \$83 million. A total of 63 subsidy programs were identified. In most cases, the subsidies were intended to increase exploration and development through a mix of tax breaks and royalty reductions. Chart 1 below shows how these subsidies were distributed across the provinces.

**Chart 1: Annual subsidy value of total \$2.8 billion (\$millions)**



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The study forecasts how these subsidies alter oil production, economic activity and greenhouse gas emissions (GHG) in 2020. The study finds:

- **The current subsidies have a slight positive impact on economic activity.** The largest impacts are found in Alberta, where the size of the total economy (i.e. GDP) is about 0.16 per cent larger in 2020 because of the subsidies. This in effect increases the annual GDP growth rate in 2020 from about 1.64 per cent to 1.8 per cent. This has a marginal effect on the overall size of the Alberta economy, which is projected to be about 27 per cent larger in 2020 than it is today.

|              | Federal/National | Alberta | Saskatchewan | Newfoundland & Labrador |
|--------------|------------------|---------|--------------|-------------------------|
| GDP (region) | 0.0%             | 0.16%   | 0.14%        | 0.10%                   |

- **Subsidies to the oil sector are increasing the level of production.** The impact of subsidies on the marginal producer of oil is important. With subsidies in place, oil production nationally is projected to be in the order of 5 per cent larger in 2020, with a range of 0.3 per cent increase in Newfoundland & Labrador to a high of 6 per cent in Alberta. In 2020, the sector is projected to be about twice as large as it was in 2005, with or without subsidies, which implies that subsidies influence growth in the sector but are not a major determinant.

|                   | Federal/National | Alberta | Saskatchewan | Newfoundland & Labrador |
|-------------------|------------------|---------|--------------|-------------------------|
| GDP Oil Producers | 4.8%             | 6.0%    | 1.2%         | 0.3%                    |

- **Net Exports are fuelled by subsidies.** Subsidies are contributing to oil exports, which in turn generate foreign exchange. Our results indicate that net exports in oil (or the trade surplus) increase about 14 per cent nationally with subsidies in place.

|                                 | Federal/National | Alberta | Saskatchewan | Newfoundland & Labrador |
|---------------------------------|------------------|---------|--------------|-------------------------|
| Net Oil Exports (trade surplus) | 13.6%            | 9.9%    | 1.6%         | -1.0%                   |

- **The employment benefit of the subsidies is questionable.** While the economy does expand with the oil subsidies in place, most of this happens in the capital-intensive oil sector. The impacts on total employment are therefore negligible.

|            | Federal/National | Alberta | Saskatchewan | Newfoundland & Labrador |
|------------|------------------|---------|--------------|-------------------------|
| Employment | 0.0%             | -0.4%   | -0.3%        | 0.0%                    |

- **Government balances are lower even with higher corporate taxes and royalty payments.** While the increased economic activity due to the subsidies does increase corporate taxes and royalties paid, labour taxes are likely lower due to the spending in the capital-intensive oil sector. More significantly, major subsidy outlays are relatively large. Government balances are

therefore worse off with the subsidies: the federal government is lower by 1 per cent, Alberta by 5 per cent, and Saskatchewan by 4 per cent. A small increase is observed in the Newfoundland & Labrador budget, where the federal subsidy infusion creates more activity and revenue while not being offset by provincial subsidies paid.

|                   | Federal/National | Alberta | Saskatchewan | Newfoundland & Labrador |
|-------------------|------------------|---------|--------------|-------------------------|
| Government Budget | -0.9%            | -4.8%   | -3.8%        | 0.2%                    |

- Subsidies drive production and hence more emissions.** Nationally, emissions are about 2 per cent higher in 2020 with the subsidies. In Alberta, the likely increase in emissions attributable to the subsidies is large, with about 5 per cent more provincial emissions than if the subsidies were removed.

|               | Federal/National | Alberta | Saskatchewan | Newfoundland & Labrador |
|---------------|------------------|---------|--------------|-------------------------|
| GHG Emissions | 2.1%             | 4.6%    | 0.9%         | 0.04%                   |

- Non-conventional production is experiencing the greatest benefit from the subsidies, followed by new drilling.** With targeted programs for the oil sands, as well as a large share of total production, the oil sands are disproportionately benefiting. Our assessment indicates that the subsidies are adding 6 to 7 per cent more production to the sector and about 12 per cent more emissions. Most of the targeted programs are for more exploration activity and drilling in the provinces.

With oil production forecast to more than double between now and 2020, with or without the subsidies in place, the share of subsidy relative to overall government expenditures could grow. Scaling up current subsidies to future production indicate subsidies more than double as a share of government expenditures.

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