



# Inefficient Fossil Fuel Subsidies:

Government of Canada Guidelines

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# Inefficient Fossil Fuel Subsidies

## Government of Canada Guidelines

### Overview

The Government of Canada has delivered on its G20 commitment to phase out inefficient fossil fuel subsidies, including through the application, in 2023, of an Assessment Framework to existing tax Measures and 129 non-tax Measures.

These Guidelines, which were jointly developed by the Minister of the Environment and Climate Change and the Minister of Finance, are the government's tool to achieve two objectives that are related to the G20 commitment:

1. Avoid creating new Measures that would be considered Inefficient Fossil Fuel Subsidies as per the Assessment Framework.
2. Help ensure all support for the fossil fuel sector that meet the definition of a fossil fuel subsidy, as per the Assessment Framework, are aligned with one of the six inefficiency criteria below.

### Scope and Application

There are two Parts to these Guidelines. **Part A** refers to the creation of a Measure, and **Part B** refers to spending decisions within a Measure.

**Part A** of these Guidelines outlines how the Government of Canada will avoid creating new Measures that would be considered Inefficient Fossil Fuel Subsidies as per the Assessment Framework. This Part applies to all Ministers when developing a proposal for consideration by Cabinet (e.g., for policy, funding, expenditure or legislative authority) for the creation of a new Measure (i.e., an "Initiative") or to the Minister of Finance when developing a new tax Measure.

**Part B** of these Guidelines outlines how the Government of Canada will ensure non-tax Measures do not provide inefficient Support to the Fossil Fuel Sector, Fossil Fuel Activities or Fossil Fuel Consumption. This Part applies to all federal departments, and agencies responsible for administering Measures. Federal Crown corporations with similar responsibilities would also be expected to adhere to these Guidelines.

Direct public support for operations in the fossil fuel energy sector outside of Canada's jurisdiction are assessed separately under Canada's Glasgow Statement Guidelines. Public financing support for operations within the fossil fuel energy sector within Canada are outside the scope of these Guidelines, and will proceed on a separate track of work.

Defined terms (bold and italicized) are found in Annex B.

### Review

The Ministers of Finance and of the Environment and Climate Change, in consultation with the Minister of Natural Resources will initiate review of the Guidelines at regular intervals to ensure that they remain

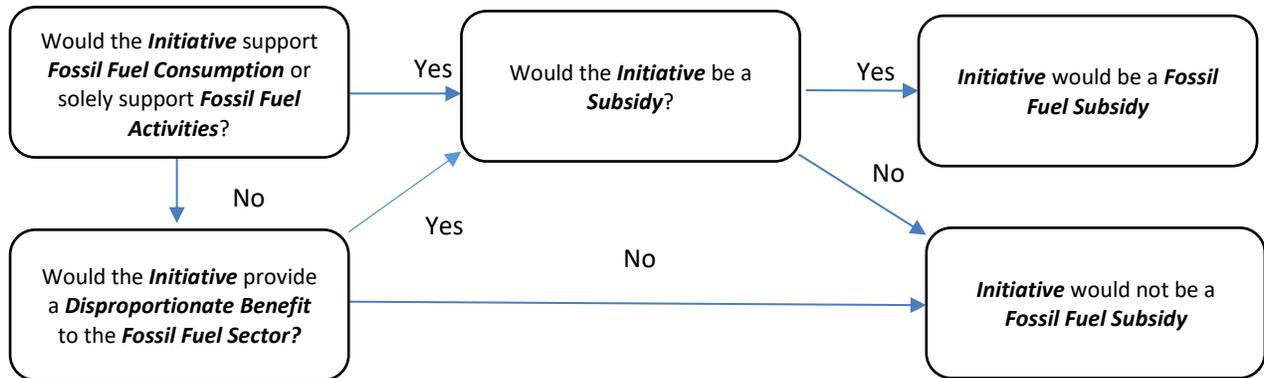
aligned with future government commitments and technological developments. The Ministers may also update the Guidelines at any time if issues arise that require immediate consideration.

## Part A – Requirements

Ministers who are developing any *Initiative* will undertake two steps prior to submitting them.

### Step 1 – Identifying a *Fossil Fuel Subsidy*

The first step will assess whether the *Initiative* would be a *Fossil Fuel Subsidy*, if created.



## Step 2: Identifying an Inefficient *Fossil Fuel Subsidy*

All **Initiatives** identified as **Fossil Fuel Subsidies** in Step 1 of the assessment framework will be considered as potential **Inefficient Fossil Fuel Subsidies** unless they meet one or more of the following criteria:

1. **Subsidies** that enable significant net GHG emissions reductions in Canada or internationally **In Alignment with Article 6 of the Paris Agreement**.
2. **Subsidies** that support **Clean Energy, Clean Technology** or **Renewable Energy**.
3. **Subsidies** that provide an **Essential Energy Service** to a **Remote Community**.
4. **Subsidies** that provide short-term support for **Emergency Response**.
5. **Subsidies** that support **Indigenous Economic Participation** in **Fossil Fuel Activities**.
6. **Subsidies** that support **Abated** production processes, or projects that have a credible plan to achieve net-zero emissions by 2030.

If any Minister determines that an **Initiative** would be an **Inefficient Fossil Fuel Subsidy**, they should not submit the **Initiative** for consideration and instead undertake efforts to refine the **Initiative** to avoid the creation of an **Inefficient Fossil Fuel Subsidy**.

## Part B – Requirements

Federal departments and agencies who are responsible for administering non-tax **Measures** will not provide **Fossil Fuel Support** from those **Measures** unless that **Fossil Fuel Support** meets one or more of the following criteria listed below. Federal Crown corporations, with responsibilities for administering not-tax Measures would also be expected to align their activities with the criteria:

1. Enables significant net GHG emissions reductions in Canada or internationally **In Alignment with Article 6 of the Paris Agreement.**
2. Supports **Clean Energy, Clean Technology** or **Renewable Energy.**
3. Provides an **Essential Energy Service** to a **Remote Community.**
4. Provides short-term support for **Emergency Response.**
5. Supports **Indigenous Economic Participation** in **Fossil Fuel Activities.**
6. Supports **Abated** production processes, or projects that have a credible plan to achieve net-zero emissions by 2030.

## Annex A: G20 Commitment

In 2009, Canada and other G20 countries committed to *phase out and rationalize over the medium-term inefficient fossil fuel subsidies while providing targeted support for the poorest.*

*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.*

*As we do that, we recognize the importance of providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms. This reform will not apply to our support for clean energy, renewables, and technologies that dramatically reduce greenhouse gas emissions.*

## Annex B: Defined Terms

“**Abated**” refers to effective (leading to significant elimination of emissions), operational carbon capture and storage (CCS)/carbon capture, utilization and storage (CCUS) or equivalent technologies. **Note:** This excludes carbon capture for the purposes of enhanced oil recovery.

“**Benefit**” refers to any financial contribution that provides an advantage (benefit) to the recipient.

“**Clean Energy**” refers to energy produced without the release of greenhouse gases.

“**Clean Technology**” refers to any process, product or service that reduces negative environmental impacts relative to prevailing technology.

“**Disproportionate Benefit**” refers to a Measure for which:

- a) more than 10% of the **Measure’s** expenditures or foregone revenues is received by the **Fossil Fuel Sector**; or
- b) the **Fossil Fuel Sector** is specifically targeted to benefit from the **Measure**.

“**Emergency Response**” refers to a response to a public health, humanitarian, or economic crisis.

“**Essential Energy Services**” refers to energy used for electricity, transportation, or space or water heating.

“**Fossil Fuels**” refers to non-renewable resources that were formed from biomass in the geological past (e.g., coal, natural gas, crude oil, bitumen), and any secondary product manufactured from those natural resources (e.g., pentanes, butane, propane, gasoline, diesel fuel).

“**Fossil Fuel Activities**” refers to activities directly related to **Fossil Fuel** production (i.e., exploration, extraction, and processing including refining) or **Fossil Fuel** use (i.e., storage, transportation, sale and production of electricity and/or heat). For greater certainty, activities undertaken by the **Fossil Fuel Sector** that are unrelated to **Fossil Fuel** production or use are not considered **Fossil Fuel Activities**.

“**Fossil Fuel Consumption**” refers to industrial, commercial, public sector, and individual consumers of **Fossil Fuels**. For greater clarity, subsidies that support **Fossil Fuel** consumption refer solely to those that reduce the price paid by consumers in the purchase of a **Fossil Fuel**.

“**Fossil Fuel Sector**” refers to those firms whose business primarily involves activities related to **Fossil Fuel** production (i.e., exploration, extraction, and processing including refining) and **Fossil Fuel** use (i.e., storage, transportation, sale). The term also refers to those firms that produce electricity and/or heat from **Fossil Fuels**.

“**Fossil Fuel Support**” refers to any transfer (e.g., grants, contributions) to another party or expenditure on intramural research and development that occurs within a **Measure** and confers a **Benefit** to the **Fossil Fuel Sector**, or supports **Fossil Fuel Consumption**.

“**In Alignment with Article 6 of the Paris Agreement**” refers to any GHG reduction occurring outside of Canada caused by an activity inside Canada for which the reduction can be verified through an

Internationally Transferred Mitigation Outcome (ITMO) established pursuant to Article 6 of the Paris Agreement.

“**Indigenous Economic Participation**” refers to **Measures** that promote increased Indigenous economic participation in projects and firms. These **Measures** should ensure that the main beneficiary of the funding or **Measure** are Indigenous peoples.

“**Initiative**” means a potential new **Measure** under development by a Minister to seek potential Cabinet and/or funding authorities (e.g., for policy, funding, expenditure or legislative authority).

“**Measure**” refers to the following types of federal programs and expenditure:

- expenditure programs (i.e., grants, contributions, transfers);
- intramural research and development;
- tariff and duty reliefs; and,
- tax expenditures that support **Fossil Fuel Consumption** or that can be claimed by the **Fossil Fuel Sector** and that represent alternatives to expenditure programs (i.e., tax credits, accelerated capital cost allowances, flow-through shares).

“**Normal Treatment**” refers to the treatment of a **Measure** that is a tariff or duty, where the Government has a standard way that it treats all businesses and industries.

“**Phase Out**” refers to gradually eliminating, up to and including complete repeal, an inefficient **Fossil Fuel Subsidy**.

“**Rationalize**” refers to adjusting the design of an inefficient **Fossil Fuel Subsidy** with the objective of ensuring that it is no longer an inefficient **Fossil Fuel Subsidy**.

“**Remote Community**” refers to communities that a) not currently connected to the North American electrical grid nor to the piped natural gas network; and, b) a permanent or long-term (five years or more) settlement with at least 10 dwellings.

“**Renewable Energy**” refers to energy derived from natural processes that are replenished at a rate that is equal to or faster than the rate at which they are consumed.

“**Subsidy**” is defined by reference to the World Trade Organization’s (WTO) definition of a “Subsidy” as set out in Article 1.1 of the Agreement on Subsidies and Countervailing Measures (ASCM)<sup>1</sup>:

*“[A] subsidy shall be deemed to exist if:*

- (a) (1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as “government”), i.e. where:*

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<sup>1</sup> The definition of a “Subsidy” in Article 1.1 of the ASCM is used as reference to determine what Measures may fall within the scope of Canada’s international commitments. The application of this Framework to a Measure does not prejudice the Measure’s legal status, nature or effects under GATT 1994 and the ASCM. In particular, such Measures may not be considered a “financial contribution” that confers a benefit or be considered as “specific” within the meaning of the Agreement.

- (i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);
- (ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)<sup>2</sup>;
- (iii) a government provides goods or services other than general infrastructure, or purchases goods;
- (iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments;

or

(a) (2) there is any form of income or price support in the sense of Article XVI of GATT 1994;  
and

(b) a benefit is thereby conferred.”

While the above WTO definition applies to “a government or any public body within the territory of a Member”, only **Measures** within the scope of Canada’s 2009 G20 commitment (i.e., **Measures** enacted by the federal government or entities wholly controlled by the federal government) will be assessed.

For the purpose of this Framework, **Measures** that are subject to **Normal Treatment** shall not be considered **Subsidies**.

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<sup>2</sup> “In accordance with the provisions of Article XVI of GATT 1994 (Note to Article XVI) and the provisions of Annexes I through III of the ASCM, the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.”