



Canada Needs a Gas Guzzler Tax That Works

The Pan-Canadian Framework on Clean Growth and Climate Change puts a lot of emphasis on reducing greenhouse gas emissions from [personal transportation](#). It's a fundamentally important goal for any country that wants to get serious about climate change. But we won't come close to achieving it if we keep putting more high-emitting vehicles on the road each year.

The tax system is one of the best tools for shifting consumer buying habits. Canada has a federal excise tax on gas guzzlers, a "green levy" for some of the least fuel-efficient cars on the road. But in its current form, the levy doesn't do a good enough job of encouraging lower-emitting vehicles. On the contrary—it actually keeps gas guzzlers artificially affordable, rather than showing the true cost associated with owning and operating a more carbon-intensive ride.

That's not what the [polluter pays principle](#) calls for, and it's certainly no way to build a successful clean growth and climate strategy.

How the Gas Guzzler Tax Falls Short

If Canada is setting out to reduce emissions across its vehicle fleet, the gas guzzler tax just doesn't get the job done.

It applies to too few vehicles, mostly luxury models, high-performance racing cars, and the bigger, more expensive sport utility vehicles (SUVs).

It's based on fuel efficiency rather than carbon dioxide emissions.

It includes an exemption for pick-up trucks when trucks, minivans, SUVs, and other

super-size models accounted for 70% of new vehicle sales in November 2016—a 17% jump in just one year, up from 66% the previous November, 63% for all of 2015, and 57% in 2013, according to the [latest figures](#) from Statistics Canada.

It sets a range of tax rates, from \$1,000 to \$4,000 per vehicle, that is too low to influence most buying decisions. The worst gas guzzler among two-seater cars, the Lamborghini Aventador Roadster, is subject to the \$4,000 maximum surcharge—on a \$400,000 purchase.

And relatively few Canadian even know the tax exists.

Small wonder that the green levy has so little impact on Canadians' auto-buying decisions. It's time for the federal government to introduce a gas guzzler tax that works.

Driving in Reverse on Fuel Efficiency

For most of this century, Canada's auto purchasing habits have been going in the wrong direction. Natural Resources Canada's *2016 Fuel Consumption Guide* tells the story with a 10-point scale that gives the worst vehicles one point and the best vehicles 10, based on the grams of carbon dioxide they emit per kilometre travelled.

The figures point to a steady shift in auto type that has been enough to wipe out fuel efficiency gains across the Canadian vehicle fleet.

SUV purchases nearly doubled between 2000 and 2009 as a proportion of total sales, from 6.9 to 12.8%, while station wagons increased from 1.0 to 3.5%.

And the number of vehicles per household inched up from 1.43 to 1.47.

It's like setting out on a trip, checking your maps, making sure your tires are filled, then barrelling down the highway in reverse.

Mind the Gap: A Huge Difference in GHG Performance

The difference in emissions performance also separates the winners and losers among manufacturers and models. The emissions intensity of Canada's vehicle fleet varies widely, from hybrid and electric cars with low to no greenhouse gas emissions to luxury vehicles that are the worst performers of all.

All-electric vehicles like the Ford Focus, the Nissan LEAF, and the Tesla Models S and X score a perfect 10 on the NRCan scale, with 0 GHGs per kilometre travelled. Hybrids like the Chevy Volt, the Hyundai Sonata, and the Toyota Prius come close, with emissions of 32, 63, and 102 grams per kilometre, respectively.

At the other end of the scale, we find the Mercedes-Benz AMG SUV, at 476 grams per kilometre, Chevrolet and GM passenger vans at 465, and the two-seat Lamborghini Aventador Roadster, at 452.

Even within vehicle categories, the choice of model makes a big difference. Among mid-size cars, the 12-cylinder Bentley Flying Spur consumes nearly eight times as much fuel as the LEAF, and nearly four times as much as the Prius. It emits a climate-busting 375 grams of carbon dioxide per kilometre travelled, compared to 104 for the Prius and 0 for the LEAF.

With a range of options available in every class of car and truck, drivers who are considering higher-emitting vehicles need a clear picture of the added costs, or externalities, associated with their buying decisions. After that, if they still choose a gas guzzler or high emitter, it's time for them to cover those costs.

Modest Fees Have a Big Impact

To build a federal feebate system that either taxes or subsidizes vehicles based on their emissions performance, Ottawa can draw on experience in Ontario. An analysis of the province's feebate program between 2000 and 2011 found some evidence that even a relatively modest vehicle fee or rebate can promote greater fuel efficiency, as long as it's high enough to shift consumers' buying decisions.

Ontario built its feebate on a vehicle tax that was similar to the current federal excise tax when it was first introduced in 1989. More vehicles became eligible for the rebate over time as their fuel efficiency improved.

The system wasn't perfect, but it produced some notable gains: when the Ford Mustang was redesigned to add engine size and horsepower, its fuel performance shifted from 8.9 to more than

9.0 litres per 100 kilometres, and its fee rose from \$75 to \$250. That produced enough sticker shock to drive some buyers to other vehicle models.

A Gas Guzzler Tax That Works

By introducing a greenhouse gas emissions rating for mini-vans and pick-up trucks, increasing the tax rate for the most carbon-intensive vehicle models, and calculating the tax as a percentage of retail price, Canada can build a gas guzzler tax that works. (With a tax rate of 10% for the worst emitters, that Lamborghini Roadster would face a surcharge of \$40,000 instead of \$4,000.)

A well-designed tax would reduce Canada's greenhouse gas emissions by 1.0 to 2.0 megatonnes per year by 2030 and deliver \$600 million per year in new revenue, though that total would decline as consumers increasingly opted for more efficient vehicles. With a tax that increased with retail prices, and a range of choices in most vehicle classes, consumers would have enough options to keep the economic impact on households to the minimum.

Consumer choice is one of the cornerstones of a low-carbon transition, and vehicles are the second-largest purchase for anyone who also owns their home. If the government is serious about implementing the Pan-Canadian Framework on Clean Growth and Climate Change, one of the first steps is to make sure the tax system is aligned with the wider strategy, rather than working against it, and a vehicle emissions tax is a great place to start.