



The Diesel Differential Closing the Gap Between Diesel and Gasoline Taxes

The Pan-Canadian Framework on Clean Growth and Climate Change is about [cutting greenhouse gas emissions](#) and speeding up the adoption of clean, low-carbon energy technologies. If Canada is serious about that commitment, it shouldn't be subsidizing diesel fuels that will be an important source of carbon pollution through 2030.

Diesel use is rising steadily in Canada, now accounting for 25% of the fuel consumption on the country's roads. Heavy trucks run on it, individual drivers receive a tax incentive that makes diesel more attractive, and remote communities still depend on it for heating and electricity.

It's promoted as an energy-efficient fuel. But diesel produces 18% more carbon dioxide, 30% more nitrogen dioxide, and an overwhelming 31 *times* as much particulate matter per litre as gasoline. Fuel-efficient diesel vehicles go farther on a litre of fuel, but they still add more pollution to the atmosphere than gasoline cars—including 15.3% more greenhouse gas emissions, after accounting for methane and nitrous oxide.

Yet Canada encourages diesel consumption with an excise tax of just 4¢ per litre, compared to 10¢ for gasoline. There's no justification for a *diesel differential* to support a more highly-polluting fuel when the country is pushing for deeper greenhouse gas reductions.

A 4¢ increase in the excise tax on diesel would raise \$350 to \$700 million per year, while reducing GHG emissions by 0.3 to 2.0 megatonnes per year. It would also bring the federal government new revenue to fund off-diesel initiatives and other elements of a low-carbon strategy. If Ottawa wants to deploy all available resources to support the Pan-Canadian Framework on Clean Growth and Climate Change, a tax structure that reflects the carbon intensity of different fuels is an option that can't be ignored.

Using Fuel Taxes to Send the Right Message

The diesel differential matters because fuel taxes influence driving behaviour and vehicle choice. There's lots of evidence that fuel use decreases when prices rise. And that a lower tax rate for diesel encourages drivers to use it.

An imbalance in fuel taxes can influence a car buyer's choice between gasoline and diesel models, offsetting an up-front cost for diesel that is \$1,500 to \$2,500 higher in Canada.

New Options for Freight

Freight transport is less easily influenced by differential taxes, since truckers have had few alternatives to diesel fuel until very recently. But higher taxes can create financial incentives for new vehicle innovation, and for commercialization of low-carbon technologies that are already available.

Under the SuperTruck Initiative in the United States, automakers have come up with 26 new technologies, from lightweight materials and better aerodynamics to more efficient engines, any or all of which could enter the market in the next two to four years. In Canada, new fuel efficiency regulations for heavy trucks would cut fuel consumption by 7.2 billion litres over the life of the 2014-2018 fleet. For the longer term, automakers are working on designs for all-electric transport trucks and heavy duty buses.

Getting Remote Communities Off Diesel

An excise tax exemption also subsidizes diesel used as a heating fuel in Indigenous and northern communities across Canada. With the federal government's \$10.7-million off-grid initiative helping those communities switch to low-carbon infrastructure, a gradual phase-out of the exemption would speed up the shift. It could also deliver new funds to help more communities shut down their noisy, polluting, unhealthy diesel generators faster.

Room for Improvement

With the third-lowest gasoline and diesel taxes among the 35 members of the Organization for Economic Cooperation and Development (OECD), Canada has lots of room for a rate adjustment. By eliminating the diesel differential, Ottawa would build on what other countries are already thinking and doing to cut subsidies for high-carbon fuels.

The United States, Switzerland, and Iceland tax diesel at a higher rate per litre than gasoline, and Finland has a diesel surcharge.

The United Kingdom and Austria tax them at the same rate, and the Netherlands is raising diesel taxes while holding the rate for petrol steady.

The European Commission plans to phase out its diesel subsidy for non-commercial vehicles “to remove the bias against petrol.”

Sweden has brought the two rates per litre closer, by equalizing its fuel taxes per unit of energy content.

An ‘Environmentally Harmful Subsidy’

A recent Nordic Council study concludes that the diesel differential is an “environmentally harmful subsidy” that delivers the greatest benefits to fuel producers, owners of private diesel vehicles, and diesel technology manufacturers while costing Denmark, Finland, Norway, and Sweden about 5% of their total tax expenditures.

After balancing new revenue from a higher diesel tax against the changes in fuel choice that would result, the Council calculates that tax harmonization would earn the four countries more than €1 billion per year in new revenue. The move would also save €89 to €222 million in environmental costs, while helping to drive a transition to “greater fuel efficiencies, other types of fuels, and other modes of transport,” the Nordic study states.

For Canada, as for the Nordic countries, closing the diesel differential is an easy win for the economy and the environment. And that makes it one of the easy steps the federal government can take to support its own climate objectives.