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Are taxes behind the hike in gas prices?

By Hugh Mackenzie

In July 1998, the price of regular, unleaded gasoline in Toronto was 52.5 cents per litre. At the end of September 2000, regular gas was selling for 76.9 cents per litre.[1]

That's an increase of 24.4 cents per litre — 45% — in just over two years.

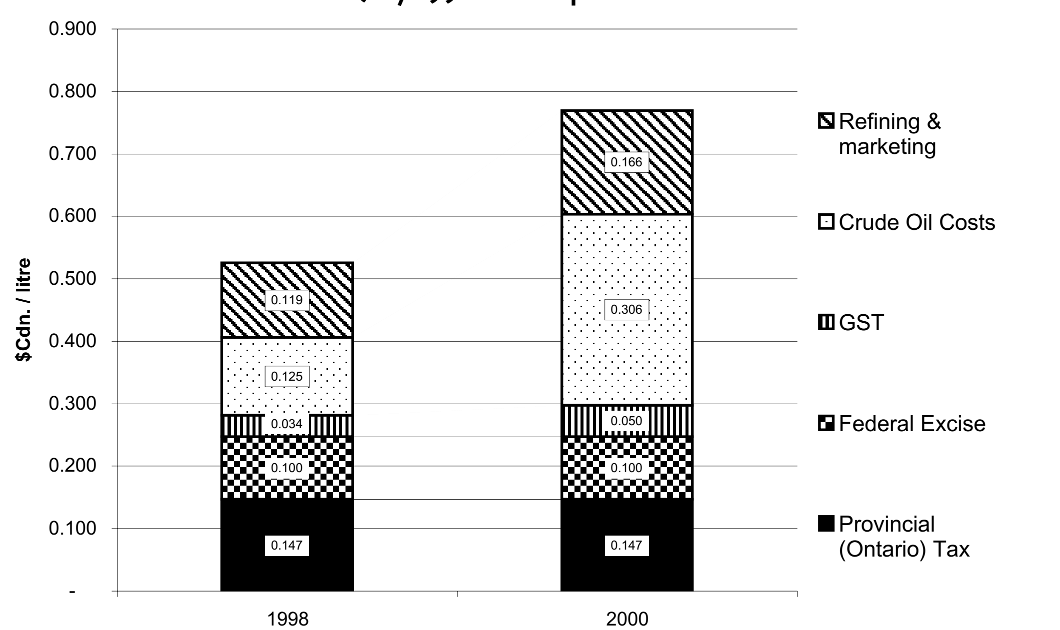
There is an obvious explanation — the 145%-plus increase in crude oil prices. But, that explanation has attracted surprisingly little scrutiny.

Instead, with the enthusiastic encouragement of the oil industry, the debate over what to do about this extraordinary increase in price has focused on gasoline taxes.

A visit to the web site of any of the major oil companies reveals the now-familiar statistical core of their argument: bar charts breaking down the price of gasoline in Canada into its various components, including taxes; bar charts comparing prices, with and without taxes, in Canada and the United States; and bar charts comparing gasoline prices in Canada with those in European countries and Japan.

The figures make their points. Taxes are shown to be the largest single component in gasoline prices in Canada. The price differential between Canada and the United States is shown to be entirely attributable to differences in tax levels. And Canadian gasoline prices are demonstrated to be lower than those in Europe and Japan.

Figure 1: Gasoline price breakdown
July 1998 and September 2000



Points powerfully made—and absolutely irrelevant.

Irrelevant, because they offer no explanation at all for the increase in retail gasoline prices in the past year.

Based on data provided by the Canadian Petroleum Institute and Shell Canada, however, the details are readily apparent.

Figure 1 shows how retail prices at the pump broke down in July 1998, compared with September 2000. In July 1998, of the 52.5 cents per litre price at the pump, crude oil accounted for 12.5 cents; Federal excise taxes 10 cents; Ontario gas taxes 14.7 cents; and the GST 3.4 cents; leaving 11.9 cents for refining and marketing.

In September 2000, the retail price of 76.9 cents breaks down as follows: crude oil, 30.6 cents; Federal excise taxes, 10 cents; Ontario gas taxes 14.7 cents; and the GST 5 cents; leaving 16.6 cents for refining and marketing.

Figure 2 explains the price increase.

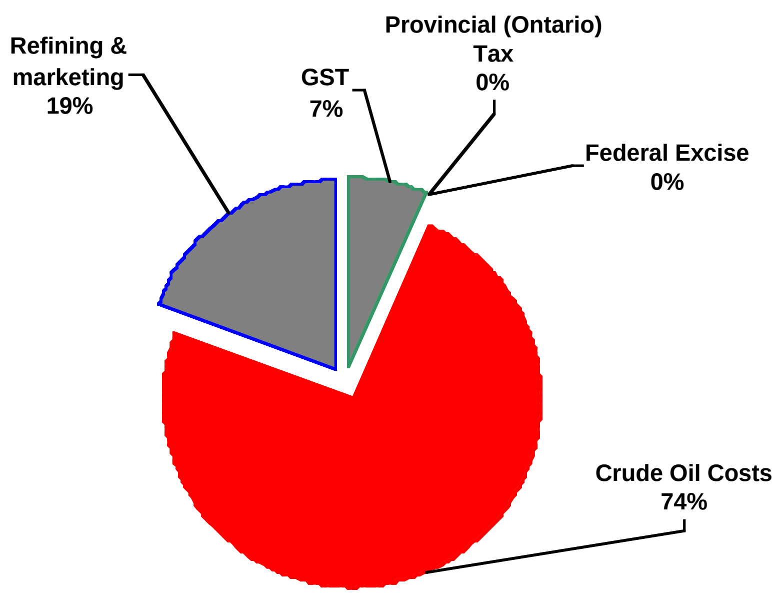
Of the 24.4 cent per litre increase, only 7% is attributable to taxes; 74% is attributable to crude oil; 19% is attributable to refining and marketing.

And where does that increase go? We are encouraged to believe that the 18.1 cents per liter increase in crude oil prices disappears into the coffers of the Middle East and other members of the Organization of Petroleum Exporting Countries. In fact, most of it stays right here in Canada — pure profit to Canadian crude oil producers. The 4.7 cents per litre increase for refining and marketing is right here in Canada as well. And assuming that refining and marketing were profitable in 1998, that increase is pure profit as well.

Small wonder the oil industry in Canada has been forced to make the shocking revelation that it will be forced to pay corporate income taxes this year.

So in the face of these facts, what are Canadian right-wingers focusing on? Not the windfall crude oil profits of the Canadian oil industry. Not the jump in pure profit in refining and marketing. No, they are focused on the GST on the increase (a trivial 1.6 cents per litre) or the GST on provincial

Figure 2: Sources of gasoline price increases
July 1998 to September 2000



and federal excise and gasoline taxes (an equally trivial 1.7 cents per litre).

Why? Because any other target would put the Tories and the Alliance in conflict with major donors in the oil industry — just before an election. Stockwell Day in particular has dreams of cleaning up in the political fundraising race in the oil patch.

And because blaming taxes for high oil prices is "on message" for an Alliance Party whose political future depends on its ability to sell Canadians lower taxes while disguising their implications for public services. The real message? Don't confuse us with facts, we know what side our bread is buttered on.

Note

1 While gas prices vary across the country, Toronto prices are representative in terms of the basic argument of this paper.

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An electronic version of this piece is available from the CCPA webpage at: www.policyalternatives.ca
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