

MINISTRY OF ENERGY, MINES AND LOW CARBON INNOVATION

BRIEFING NOTE FOR INFORMATION

PREPARED FOR: Honourable Bruce Ralston, Minister of Energy Mines and Low Carbon Innovation

ISSUE: Analysis of Alberta Gasoline Tax Reduction

SUMMARY:

Alberta eliminated its gasoline tax on April 1, 2022, which initially widened the differential between average gasoline prices recorded in that province and the average price recorded in British Columbia (BC), Saskatchewan and Ontario. However, this increased differential has eroded with the gap between BC and Alberta narrowing to 20 cents – the average level recorded prior to April 1 – and the gap between Alberta and Saskatchewan shrinking to 7 cents. As the cost of crude oil is assumed to be equal in BC, Alberta, and Saskatchewan (according to data published by the BC Utilities Commission [BCUC]) and no tax changes have taken place in either BC or Saskatchewan, increased wholesale, and retail margins have all but eliminated the benefit to consumers from Alberta's elimination of its gas tax.

	Price March 31	Price April 4 (1 st business day after 13 cents tax eliminated in Alberta)	Price July 19
BC	190.5	190.5	202.3
Alberta	167.3	156.1	179.7
differential	23.2	34.4	22.6

MINISTRY RESPONSE:

Initial observations indicate that reductions to gasoline taxes may not result in long-term benefits to consumers.

BACKGROUND:

Starting early in 2022, gasoline prices across Canada experienced significant increases which the BCUC – in their role as the Administrator of the *Fuel Price Transparency Act* – attribute primarily to the change in the price of crude oil. Through the latter part of 2021 and early into 2022 global energy markets have seen rising prices for all energy commodities stemming initially from economic recoveries following the lifting of COVID-19 restrictions, and then further influenced by the conflict in Ukraine.

On March 7, 2022, the Government of Alberta announced it will suspend provincial fuel taxes as of April 1, 2022 (in addition they also announced a \$150 credit for households' electricity bills). This announcement was motivated by the increasing cost of energy, and the overall impact inflationary pressures were imposing on households. The fuel tax "holiday" would initially be in

place from April 1 through to June 30, 2022, with a quarterly review thereafter. Any reintroduction of the tax will depend on the North American price for oil (West Texas Intermediate) remaining below \$90 per barrel, with a full reinstatement at \$80 per barrel. Following the first quarterly review, the Government of Alberta announced that the tax break will remain in place until at least September when it will take a second look at the program.

The Government of Ontario followed suit when it cut its gas tax rate by 5.7 cents per litre and its fuel tax rate (which applies to diesel) by 5.3 cents per litre on July 1, 2022. These reductions are intended to be in place until December 31, 2022. In late 2018, Ontario eliminated its cap-and-trade carbon tax which reduced fuel taxes by 4.3 cents per litre.

Other jurisdictions (Netherlands, Germany, Spain, along with several states in the United States) have also introduced fuel tax holidays coinciding with increasing energy costs. After some were introduced, prices at the pump crept back up substantially after initially falling leading to questions on the effectiveness of tax decreases to addressing affordability.

DISCUSSION:

Empirical studies of the effectiveness of cuts to fixed taxes such as fuel taxes have been hard to locate; however, there appears to be more research on whether consumers are the long-term beneficiary of cuts to value added taxes (such as sales tax). A study published in the Journal of Political Economy found that value added tax (VAT) cuts are less likely to be passed on to consumer prices than an equal VAT hike (a part of the study was formed by an analysis of VAT changes within the hairdressing industry in Finland). According to the study, 60 percent of prices did not respond to the VAT cut. However, they did respond to the reinstatement of the standard VAT rate: almost all companies increased their prices by 80 to 120 percent of the VAT rate increase.

Even before tensions started to escalate between Russia and the Ukraine, the average (for all recorded cities) daily price for unleaded gasoline recorded in BC was higher when compared against Ontario, Saskatchewan and Alberta (see attachment). By early March after war had broken out, the average prices had increased by 15 to 20 cents in each province, corresponding primarily to the rising cost of oil around the world. Prices continued to escalate in each of the provinces, with most seeing prices peak 65 to 75 cents per litre higher than the start of the year.

Following Alberta's temporary elimination of their fuel tax (April 1), the gap between the average prices in Alberta and BC widened from just over 20 cents to nearly 35 cents per litre. Equally, the differential between Saskatchewan and Alberta widened from 2 cents per litre to nearly 15 cents. These differentials continued to widen up until the middle of May when the trend started to reverse. By the middle of July, the differential recorded between BC and Alberta had returned to what was being recorded prior to April 1 (20 cents), while the differential between Saskatchewan and Alberta had shrunk to 7 cents. As the cost of crude is assumed to be equal across all three provinces, and no other province adjusted their tax, the shrinking differential points to wholesalers and or retailers realizing larger margins in Alberta and thus reducing the benefit to consumers from the elimination of the gas tax.

Similarly, the differential between the prices being recorded in Ontario and Alberta had been decreasing and with Ontario reducing its fuel taxes on July 1 the average price in that province dropped below the average price in Alberta for the first time in 2022. The decrease in taxes in Ontario also opened wider margins when compared against BC as well as Saskatchewan; however, it is too early to determine if these benefits will be erased as has been seen in Alberta.

CONCLUSION:

Initial observations indicate that the elimination of gasoline taxes implemented in Alberta may not have long-term benefits to consumers, though similar observations have yet to be recorded in Ontario who reduced their gasoline taxes on July 1. The Oil and Gas Division will continue to monitor and analyse prices, policies, and other fuel market dynamics to increase the transparency and our understanding of this section of our energy system.

Attachment: Chart 1: Average gasoline (unleaded) price in four provinces

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Chart 1: Average gasoline (unleaded) price in 4 provinces

