

Ontario Introduces Tax on Pollution

Consumers will pay more for goods that pollute the environment. The Wynn government is introducing a 'cap' on the total amount of pollution emitted by firms. The plan is to reduce the level of the cap by 4.2 per cent, each year for the first few years. There will be a fee for each ton of greenhouse gas emitted. For auto gasoline, this is calculated to increase the price consumers pay by 4.3 cents per litre. The fee is sure to change choices made by firms ... and by consumers.

Ontario is not the first jurisdiction to introduce a cap, so we know some things about how consumers will be affected. Results from California and from the European Union indicate that there are already off-the-shelf measures firms can take - to change production methods to reduce their pollution – and their tax. Evidence for the EU is available at http://ec.europa.eu/clima/policies/transport/index_en.htm

Available changes in technology represent good news because we may not face the full 4.3 cents per litre increase when we gas up our cars. Research evidence indicates that substantial reductions in carbon emissions will come in the first two years. The heaviest impact of the pollution tax will be on transportation, a sector that accounts for 35% of Ontario's greenhouse gas emissions. It appears that lobbyists for the largest polluters have succeeded in gaining a free pass for the first year, so behaviour there may well be delayed. In the consumer market, some people will buy cars that are more fuel efficient, and a few will replace their gasoline autos with electric vehicles or hybrids. Others may try to share rides or drive a little less.

The Ontario budget estimates that the cost of heating a home with natural gas / propane will increase by about \$5 per month. That low estimate may be optimistic. No doubt the government is relieved to be able to introduce the pollution tax in an era when worldwide oil and gas prices have retreated. Ontario offers subsidies to improve insulation etc., but the price increase will be hard to avoid. Digital thermostats will permit some consumers to move to time-of-day heating. Consumers who already lowered their thermostat will find very small relief from adding a second sweater.

If the gasoline market or the home heating market for natural gas were more competitive, some of the increase from the new pollution tax would be absorbed by the sellers. You can hold your breath to avoid breathing bad air, but don't hold it waiting for gas sellers to absorb much of the new tax on pollution. These are not markets known for aggressive price competition.

Lobbyists for Ontario manufacturers earn fees by claiming the pollution tax will make their clients uncompetitive. These are crocodile tears. Evidence from other jurisdictions, as well as Canadian research, indicates most manufacturers will be just fine. Some firms are nimble, some have experience with carbon taxes in other jurisdictions, and some are free from carbon-tax competition.

Overall, green consumers will be delighted with the policy. Most harmed will be those who do not support green measures and who do not change in response to the new prices. It pays to be agile.