

Ottawa Mulls Cut In Diesel Tax: Sources

\$1B Savings

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OTTAWA - Senior members of the Conservative government have discussed a possible \$1-billion cut to a tax on diesel fuel, sources say, a move that would benefit cash-strapped manufacturers and municipalities.

The tax in question is the 4¢ excise tax charged per litre of diesel. In the most recent fiscal year, the levy generated over a \$1-billion of revenue for Ottawa. Eliminating that tax would benefit the biggest users of diesel fuel, namely city-run bus services, railways and trucking outfits. Benefits would accrue to manufacturers and consumers, as it would reduce costs associated with shipping goods to market.

"There still seems to be a fair bit of interest from a political point of view," said someone familiar with how officials are treating the proposal.

The move would be welcomed by the struggling manufacturing sector, whose profit margins are under heavy pressure from the rise of the Canadian dollar and higher energy costs.

"Anything that would reduce the cost of shipping would have a beneficial impact on manufacturers by providing more cash flow -- which is pretty scarce today," said Jayson Myers, president of the Canadian Manufacturers and Exporters. "A tax cut like that would certainly go to the bottom line of manufacturers and any company that is dependent on shipping."

Manufacturers have been forced to absorb additional costs linked to shipping their goods, as passed on through fuel surcharges by trucking firms and railways. Mr. Myers said any benefit from a possible cut to diesel taxes would likely be shared by shipping companies and manufacturers.

The cut would also leave more money in the hands of municipalities to re-invest in their public transit systems. Such a move could prove popular with some city councils and be cited as evidence that the government is trying to address environmental concerns.

However, the sources added the proposal has been met with opposition from the Department of Finance, which is reluctant to give up a stream of revenue, particularly as the economy has lost steam and Ottawa's budget surplus is down significantly from last year. Moreover, a spokesman for the Prime Minister's Office has denied that such a cut in the works. "It is not true," said Kory Teneycke.

Cutting the excise tax on diesel could prove to be a "good wedge issue" in the next election campaign, sources noted. The Prime Minister's Office signalled on Friday that

Canadians will likely be going to the polls this fall unless Liberal Leader Stephane Dion agrees in the next couple of weeks to support the Conservative government's agenda.

The Liberal Party is pinning its electoral success on its Green Shift plan -- the centerpiece of which is a carbon tax on greenhouse gas emissions produced by diesel, aviation fuel and natural gas.

Furthermore, as envisaged under Green Shift, the excise tax on diesel would nearly triple in a four-year time period, from its current rate of 4¢ to 11¢.

The tax, as proposed by the Liberals, would raise \$15-billion. However, the Liberals plan to return a chunk of the money back to taxpayers in the form of tax breaks and use some of the proceeds on new social programs.

The Conservative government has labeled Mr. Dion's plan as "insane" and "crazy," with the Prime Minister, Stephen Harper, going so far as to say it would "screw everybody across the country."

John Williamson, national director of the Canadian Taxpayers Federation, said a diesel tax cut, if implemented, would provide consumers with some relief in the face of, until recently, skyrocketing energy prices. Higher energy costs was a factor in pushing Canada's inflation rate to a five-year high of 3.4% in July, Statistics Canada reported last week.

"Any federal move to bring down energy prices would be a positive move from a taxpayers' point of view," he said.

"Cutting the diesel excise would be beneficial because it would reduce shipping costs within Canada. And that's a good first step."

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