



**Ontario Trucking
Association (OTA)**

Supply Chain Guide to Understanding Carbon Taxation



Ontario
Trucking
Association

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Background

The Carbon Tax Rates on Diesel Fuel Consumed in Canada Will be Applied

The federal carbon pricing system, as it relates to diesel fuel, is being launched in Canada on April 1, 2019. This means a carbon tax – in one form or another – will be applied to Canadian diesel fuel consumed by the trucking industry to move product domestically in all provinces. What the charge will be and how it is applied will vary from province to province. A trucking company operating in a province that has not applied their own carbon tax to diesel fuel will pay the federal carbon charge at a level set by the federal government (see table under ‘light fuel oil’). However, other provinces have developed different types of systems and have entered into different deals with the federal government. In those provinces, there could be different carbon costs associated with a litre of diesel.

Rates for Provinces

The following table presents fuel charge rates that will apply in Ontario, New Brunswick, Manitoba and Saskatchewan. The rates will become effective as of April 2019, with future increases effective as of April of the year noted in the table.

Federal Fuel Charge Rates for Listed Provinces					
Type	Unit (\$ per)	April 2019 (\$20/tonne)	April 2020 (\$30/tonne)	April 2021 (\$40/tonne)	April 2022 (\$50/tonne)
Aviation gasoline	litre	0.0498	0.0747	0.0995	0.1244
Aviation turbo fuel	litre	0.0516	0.0775	0.1033	0.1291
Butane	litre	0.0356	0.0534	0.0712	0.0890
Ethane	litre	0.0204	0.0306	0.0408	0.0509
Gas liquids	litre	0.0333	0.0499	0.0666	0.0832
Gasoline	litre	0.0442	0.0663	0.0884	0.1105
Heavy fuel oil	litre	0.0637	0.0956	0.1275	0.1593
Kerosene	litre	0.0516	0.0775	0.1033	0.1291
Light fuel oil	litre	0.0537	0.0805	0.1073	0.1341
Methanol	litre	0.0220	0.0329	0.0439	0.0549
Naphtha	litre	0.0451	0.0676	0.0902	0.1127
Petroleum coke	litre	0.0767	0.1151	0.1535	0.1919
Pentanes plus	litre	0.0356	0.0534	0.0712	0.0890
Propane	litre	0.0310	0.0464	0.0619	0.0774
Coke oven gas	cubic metre	0.0140	0.0210	0.0280	0.0350
Marketable natural gas	cubic metre	0.0391	0.0587	0.0783	0.0979
Non-marketable natural gas	cubic metre	0.0517	0.0776	0.1034	0.1293
Still gas	cubic metre	0.0540	0.0810	0.1080	0.1350
Coke	tonne	63.59	95.39	127.19	158.99
High heat value coal	tonne	45.03	67.55	90.07	112.58
Low heat value coal	tonne	35.45	53.17	70.90	88.62
Combustible waste	tonne	39.95	59.92	79.89	99.87

Consequently, as of April 1, 2019 the rate carriers pay for diesel will depend on where they purchase the fuel and where they burn the fuel. The federal carbon charge four-year price schedule for diesel can be found under the heading ‘light fuel oil’ in the above table and online [here](#). Note, the federal charge (above charge schedule) and registration system are being imposed on Ontario, New Brunswick, Manitoba, and Saskatchewan as of April 1, 2019 and July 1, 2019 in Nunavut and Yukon. These are known as ‘listed provinces’ and are occasionally referred to as ‘backstop’ jurisdictions. All other provinces could have different rates and different systems that will need to meet federal standards on a yearly basis. (It is important to note that non-listed provinces will have to have their provincial carbon plans reviewed each year and could become a backstop province depending on the approvals by the Government of Canada). Nonetheless, as of April 1, 2019, based on the available information, OTA has attempted to approximate the price of carbon (¢/litre) when it comes to diesel fuel in all Canadian provinces. It is important to remember these carbon charges are above and beyond other provincial and federal taxes on fuel.¹

- BC: 10.23 ¢/litre²
- AB: 8.03 ¢/litre³
- SK: 5.37 ¢/litre⁴
- MB: 5.37 ¢/litre⁵
- ON: 5.37 ¢/litre⁶
- QC: 6.26 ¢/litre⁷
- NFL: 5.37 ¢/litre⁸
- NB: 5.37 ¢/litre⁹
- NS: 1.2 ¢/litre¹⁰
- PEI: 5.37 ¢/litre¹¹

Federal Trucking Registry

To comply with the federal diesel carbon tax, inter-provincial trucking companies who operate into, out of, or through listed provinces will have to register with the Canada Revenue Agency (CRA) and report mileage travelled in those provinces to determine the carbon tax. Filings will be similar to those completed for IFTA. To learn more about this system you can visit the CRA's website [here](#). The federal government also released on March 15, 2019 an information package for the industry. To read this document, please click [here](#).

Impact

Fuel and Labour Costs to Rise In-Tandem

According to data collected by the Kent Group Ltd., the rack (wholesale/before taxes) price of a litre of diesel fuel increased by 12.9 ¢/litre from 2015 to 2018. In January 2019, the Canadian average price of diesel per litre was 74.4 ¢/litre. If we project a 12.9 ¢/litre increase in the wholesale price of diesel by the end of 2022 and add a carbon charge of \$50/tonne, together this would represent a 35.36% increase in the price of diesel fuel over the current Canadian average. Even if the wholesale price of diesel were to remain flat over the next four years, the cost of diesel fuel would still increase 18% by 2022 through the carbon tax alone. According to annual surveys conducted by the American Transportation Research Institute (ATRI), fuel cost generally accounts for anywhere from 20 to 40 percent of a motor carrier's average marginal cost per mile.¹² This variation will depend on the price of oil and labour demands (drivers), as fuel and labour are typically the two leading cost components. In Canada, truck driver wages have also been rising significantly over the past few years as trucking companies continue to struggle to attract and retain labour.¹³ For example, the median salary for truckers increased 15% from 2013 to 2017, according to the ATA.¹⁴ In addition, most companies are also offering or increasing existing sign-on bonuses along with expanded benefits packages. This trend is only expected to continue and expand as the driver shortage in Canada intensifies.

→ ***This means that for most trucking companies, their two largest cost centers (labour and fuel), which together account for around 65% of a carrier's average marginal cost per mile, are expected to rise in-tandem over the 2019 to 2022 timeline.***¹⁵



¹ See NRCAN for more information on provincial and federal [taxes](#).

² Provincial Carbon [Tax](#). ³ Provincial Carbon [Levy](#). ⁴ Listed province with [federal pricing](#). ⁵ Listed province with [federal pricing](#).

⁶ Listed province with [federal pricing](#). ⁷ This is an estimate from suppliers under Quebec's cap and trade [system](#).

⁸ The five cent additional gas tax on diesel will be eliminated and replaced with a federally-mandated 5.37 cent carbon charge, which equates to [\\$20/tonne](#).

⁹ Listed province with [federal pricing](#). ¹⁰ Nova Scotia has estimated this will add 1 cent to gasoline and slightly more for [diesel](#).

¹¹ Will implement a carbon charge on gas and diesel by April 2019. However, Ottawa is allowing the province to offset that by dropping its provincial excise [tax](#).

There is Very Little Wiggle Room for Trucking Companies

According to Statista, a publicly available website, between 2009 and 2016 revenue per shipment in the trucking industry increased by 27.9% from \$486 per shipment in 2009 to \$621 in 2016.¹⁶ However, during that period revenues per shipment showed significant fluctuations ranging from year over year increases as high as 12% to years that saw negative growth. The reason for this fluctuation is most easily explained by the trucking industry's inherent and fundamental connection to Canada's economy. Simply put, as the economy goes so goes the Canadian trucking industry, with the inverse also being equally true. Nonetheless, if averaged out, the annual average increase in revenues per shipment during the 2009 to 2016 period was 3.9%.¹⁷ When projecting into the future, it's always important to keep in mind that trucking is a hyper competitive business that competes on pennies, not dollars. Many Canadian trucking companies can be expected to have an operating ratio between 90% and 94%.¹⁸ This range is reflective of the historic operating ratios posted by the trucking industry published previously by Statistics Canada. At the same time, according to the Conference Board of Canada, most productivity gains made in the for-hire trucking industry have historically been quickly passed on to customers. In fact, 87% of productivity gains by the for-hire trucking industry since 1986 have flowed through to customers in the form of lower prices.¹⁹ As the Conference Board goes on to note, "we generally take the benefits of freight transportation for granted, in part because the system typically works well – at least in terms of making a variety of products available to consumers in a timely fashion. However, disruptions in freight transportation systems can have a rapid impact, reminding consumers of the value of these services."



This means most trucking companies are already running on extremely thin margins. Furthermore, it is highly unlikely that significant productivity gains can or will be made over the short to medium term. As the conference Board of Canada notes, "Ultimately, efficient freight transportation improves export competitiveness and results in more goods being available at lower prices for consumers. This makes the health of the trucking industry freight transportation networks an issue of importance for Canadian competitiveness."

¹² See: American Transportation Research Institute's - An Analysis of the Operational Costs of Trucking Reports, which are produced annually and available upon request from ATRI.

¹³ As an example, see: <https://www.cnn.com/2018/08/03/where-the-jobs-are-trucking-companies-are-hiking-wages-as-they-struggle.html>.

¹⁴ See: <https://www.bloomberg.com/news/articles/2018-08-01/how-a-trucking-shortage-is-fueling-u-s-inflation-quicktake>.

¹⁵ See: American Transportation Research Institute's - An Analysis of the Operational Costs of Trucking Reports, which are produced annually and available upon request from ATRI.

¹⁶ This paper utilizes only publicly available data. While not stated, it is assumed that this is inclusive of all trucking activity (for example, containing both TL and LTL). In addition, there is also no reference to weight. With this in mind, this should not be taken as representative of any one segment of the industry, rather, only a highly generalized frame of reference. See: <https://www.statista.com/statistics/449874/trucking-industry-revenue-per-shipment-canada/>.

¹⁷ See: <https://www.statista.com/statistics/449874/trucking-industry-revenue-per-shipment-canada/>.

¹⁸ See: Table 23-10-0225-01 Trucking financial statistics, by province and territory

¹⁹ See: <https://www.conferenceboard.ca/topics/energy-enviro/truckdrivers.aspx?AspxAutoDetectCookieSupport=1>

- *McDonald's Corp long time distributor Martin Brower Co. is raising delivery fees, imperiling low menu prices and Procter & Gamble Co., Hasbro Inc. are sounding the alarm that higher freight fees could be passed on to consumers of everything from Crest toothpaste to Arm & Hammer cat litter to My Little Pony figurines. (Bloomberg March 2019)*
- *"We must be able to pass these increases along to our customers", a group of McDonald's franchisees said in a February 27th, 2019 website post. "The bottom line is their costs are going up and so are ours." (Bloomberg March 2019)*
- *"Distribution costs are huge. I'm scratching my head trying to figure out how \$4.99 (menu) is going to work." – Owner of 14 fast food outlets. (Bloomberg March 2019)*
- *P&G Chief Executive Jon Moeller, speaking at the Consumer Analyst Group of New York conference on Boca, Raton, Florida, said trucking costs are currently about 25 percent higher than a year ago. This is putting pressure on P&G's margins, and the company is focused on productivity improvements to offset the costs, spokesman Damon Jones said. (Bloomberg 2019)*
- *The problem (rise in truck rates) is widespread across the consumer landscape: [Coca-Cola Co.](#), [PepsiCo Inc.](#) and restaurant operators such as [Yum! Brands Inc.](#) are also being affected, according to recent quarterly reports. It's also spreading to rail, where freight costs are set to increase above the rate of inflation, according to Bloomberg Intelligence analyst Lee Klaskow. (Bloomberg 2019)*
- *Still, companies are better positioned to deal with the issue now than they were when prices first surged, said Brittany Weissman, an analyst at Edward Jones. "Last year, the higher transportation costs caught a number of companies off guard versus this year, they were expected," she said. "Plus, many companies have the benefit of price increases to help offset input cost like higher transportation cost."*
- *"Like all grocers, Whole Foods Market has experienced increased costs from suppliers due to materials, labour and transportation, and we've absorbed much of the inflation," a Whole Foods spokeswoman said in a statement. (Business Insider 2019). (Response to product price increase)*

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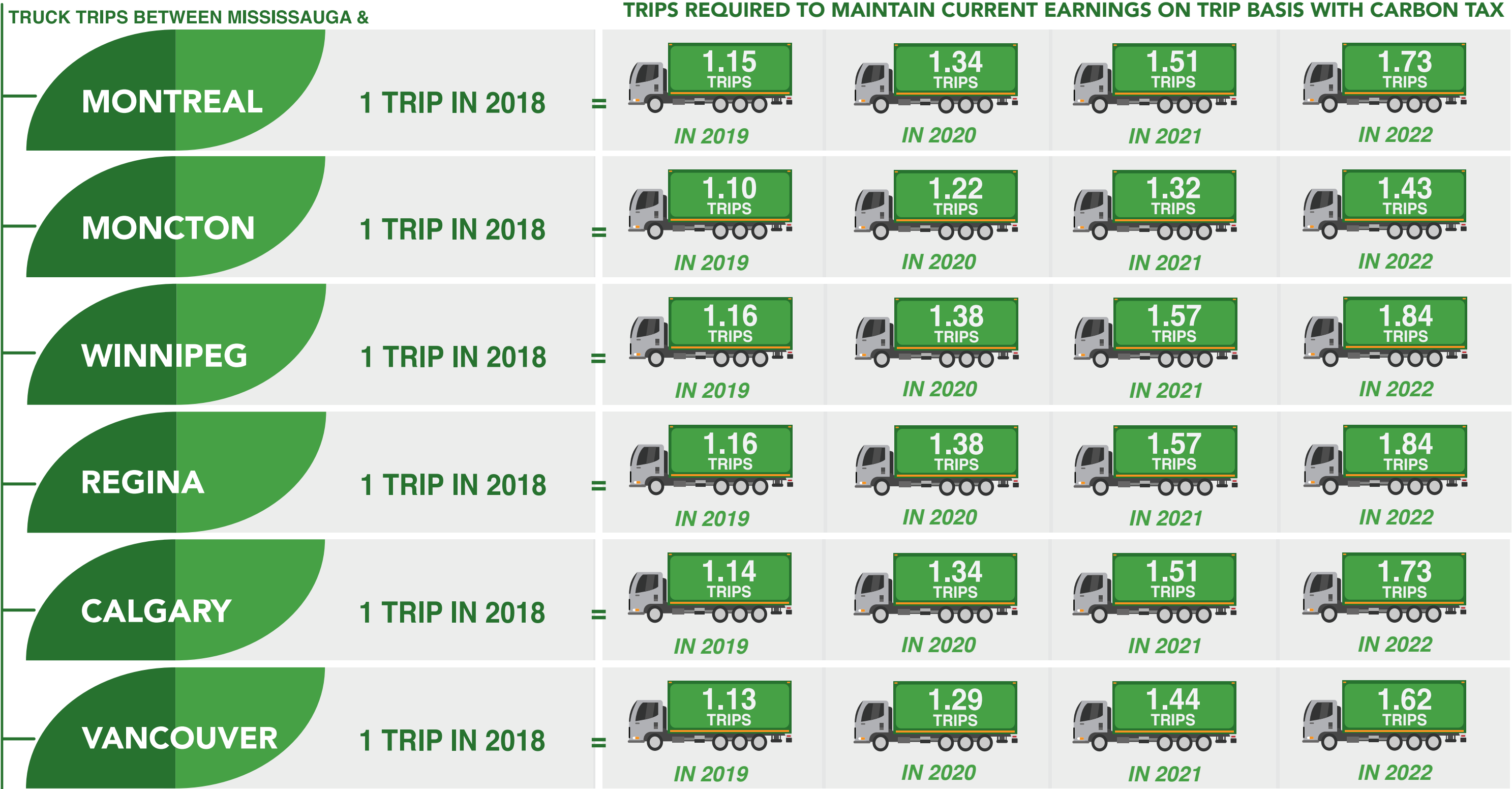
IMPACT OF

CARBON TAX

ON ONTARIO TRUCKING INDUSTRY

TAX INCREASE PER LITRE OF DIESEL

2019	2020	2021	2022
\$0.0537	\$0.0805	\$0.1073	\$0.1341



THE ABOVE FIGURES ARE ESTIMATED GENERAL REPRESENTATIONS ON HOW THE CARBON PRICING STRUCTURE IN CANADA COULD AFFECT GENERAL LONG-HAUL TRUCKING OPERATIONS IN CANADA BASED ON DISTANCE TRAVELLED BY TRUCKS AND THE AVERAGE FUEL ECONOMY. SPECIFIC COMMODITY AND GEOGRAPHIC CONSIDERATIONS ARE NOT FACTORED INTO THESE FIGURES. TO DETERMINE THE IMPACT OF CARBON PRICING ON INDIVIDUAL TRUCKING COMPANIES FOR THE TIME PERIODS LISTED ABOVE, THOSE COMPANIES WOULD BE REQUIRED TO TRACK AND MONITOR THEIR FUEL CONSUMPTION AND TAX CONTRIBUTIONS SPECIFIC TO THEIR OPERATIONS.

OPERATING RATIO - (0.92) STATISTICS CANADA | FUEL CONSUMPTION RATE - NATURAL RESOURCES CANADA - SMARTWAY PROGRAM (38.4 LITRES PER 100 KM) | TRACTOR DISTANCE - NATURAL RESOURCE CANADA - SMARTWAY PROGRAM (230,000KM A YEAR) | OPERATING COST OF TRUCKS - AMERICAN TRANSPORTATION RESEARCH INSTITUTE | CARBON TAX RATES - CANADA REVENUE AGENCY - GOVERNMENT OF ALBERTA - GOVERNMENT OF BRITISH COLUMBIA | ESSO - QUEBEC