



**Canadian Trucking
Alliance CTA**



Carbon Charge on Diesel Fuel 2020



Canadian Trucking Alliance

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Background

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

The federal carbon charge, as it relates to diesel fuel, was launched in Canada on April 1, 2019. This means a carbon charge— 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 price 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.

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](#), and will rise in all provinces subject to the federal price on carbon on April 1st of each year. Note, the federal charge (above charge schedule) and registration system has been imposed on Ontario, New Brunswick, Manitoba, and Saskatchewan as of April 1, 2019, on July 1, 2019 in Nunavut and Yukon, and on January 1, 2020 in Alberta. 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, based on the available information, CTA has attempted to approximate the current price of carbon (¢/litre) when it comes to diesel fuel in all Canadian provinces. It is also important to remember these carbon charges are above and beyond other provincial and federal taxes on fuel.¹

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
Sill 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

- BC: 10.23 ¢/litre²
- AB: 5.37 ¢/litre³
- SK: 5.37 ¢/litre⁴
- MB: 5.37 ¢/litre⁵
- ON: 5.37 ¢/litre⁶
- QC: 7.10 ¢/litre⁷
- NFL: 5.37 ¢/litre⁸
- NB: 5.37 ¢/litre⁹
- NS: 1.3 ¢/litre¹⁰
- PEI: 5.37 ¢/litre¹¹

Federal Trucking Registry

To comply with the federal diesel carbon charge, 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 charge that is to be paid or rebated. 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](#).

Questions and Concerns

If carriers have questions or concerns about the federal registration system for interprovincial carriers operating in listed provinces, they can write the CRA at fuelcharge@cra-arc.gc.ca and copy CTA at CRAquestions@cantruck.ca. CRA will provide written answers to questions sent to this email address. Other contact information for CRA, including phone numbers and email addresses, can be found [here](#).

The Canadian Trucking Alliance (CTA) has raised a number of concerns on behalf of the industry relating to the federal trucking registry and the federally imposed carbon charge. CTA continues to work with the Government of Canada to address these concerns.

Carbon Reduction Regulations for Trucking and Revenue from the Federal System

The Canadian Trucking Alliance is supportive of the reduction of carbon emissions from the trucking industry. The trucking industry is the only freight mode in Canada to use both first and second generation Environment Canada regulated equipment. These regulations have cost the Canadian trucking industry billions in additional capital investment. Environment Canada estimates a reduction in carbon emissions between 2018 and 2030 of 3 Megatons (Mt) from heavy trucks will come at a cost of \$4.1 billion to the trucking industry. If you include the investment cost and emissions savings of the Phase I, (2014) Environment Canada regulation for heavy trucks, the trucking industry has reduced its carbon footprint by 6 Mt at a cost of \$8.3 billion. While adding carbon charge to diesel has always been touted as intended to spur changes in behaviour, in the long-haul trucking industry, there are very few wholly-viable and widely acceptable alternatives to the diesel engine. This fact is captured in the Environment Canada regulations governing carbon emissions from trucking equipment. Consequently, the Canadian trucking industry cannot understand the policy intent behind adding carbon pricing to diesel fuel as there is no true 'alternative' and the equipment on the market is already strictly regulated by Environment Canada. Based on these facts, the only reasonable policy would be to return the revenue carbon pricing generates to the industry so that the industry can adopt the most fuel-efficient equipment faster. In this, CTA believes carbon charge revenues should be used to help the industry improve its emission impact where actual results can be

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

² Provincial Carbon [Charge](#). 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](#).

realized. CTA believes, for example, the revenue could be given back to the industry to support the adoption of the newest and most fuel-efficient Environment Canada regulated equipment such as tractors and trailers, and other equipment including, but not limited to; aerodynamic devices such as side skirts, wide-based single tires, boat-tails, and other emission reduction technologies. In 2019, the federal government announced the introduction of the Climate Action Incentive Fund (CAIF), which would see a portion of the revenues collected through the carbon charge returned to small-medium sized businesses for emission reducing projects, such as facility modifications or end-use fuel switching. This stream showed minimal uptake in the trucking industry, with qualifying companies only showing a moderate interest in taking part in this type program. A separate stream meant to provide rebates to small-medium sized businesses for aerodynamic devices, and other emission reduction technologies was also announced as the second phase of the CAIF. However, the rebate stream, which was set to begin in late 2019, has since been delayed, with no timelines established for launching the program. CTA believes that all revenues generated by the trucking industry through the carbon charge should flow back to the industry through the CAIF, or similar type program for fleets.

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 21.2 ¢/litre from 2016 to 2019. In January 2020, the Canadian average price of diesel per litre was 79.1 ¢/litre. If we project a 15.1 ¢/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 23.36% 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 charge 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



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.cbc.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>

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."***

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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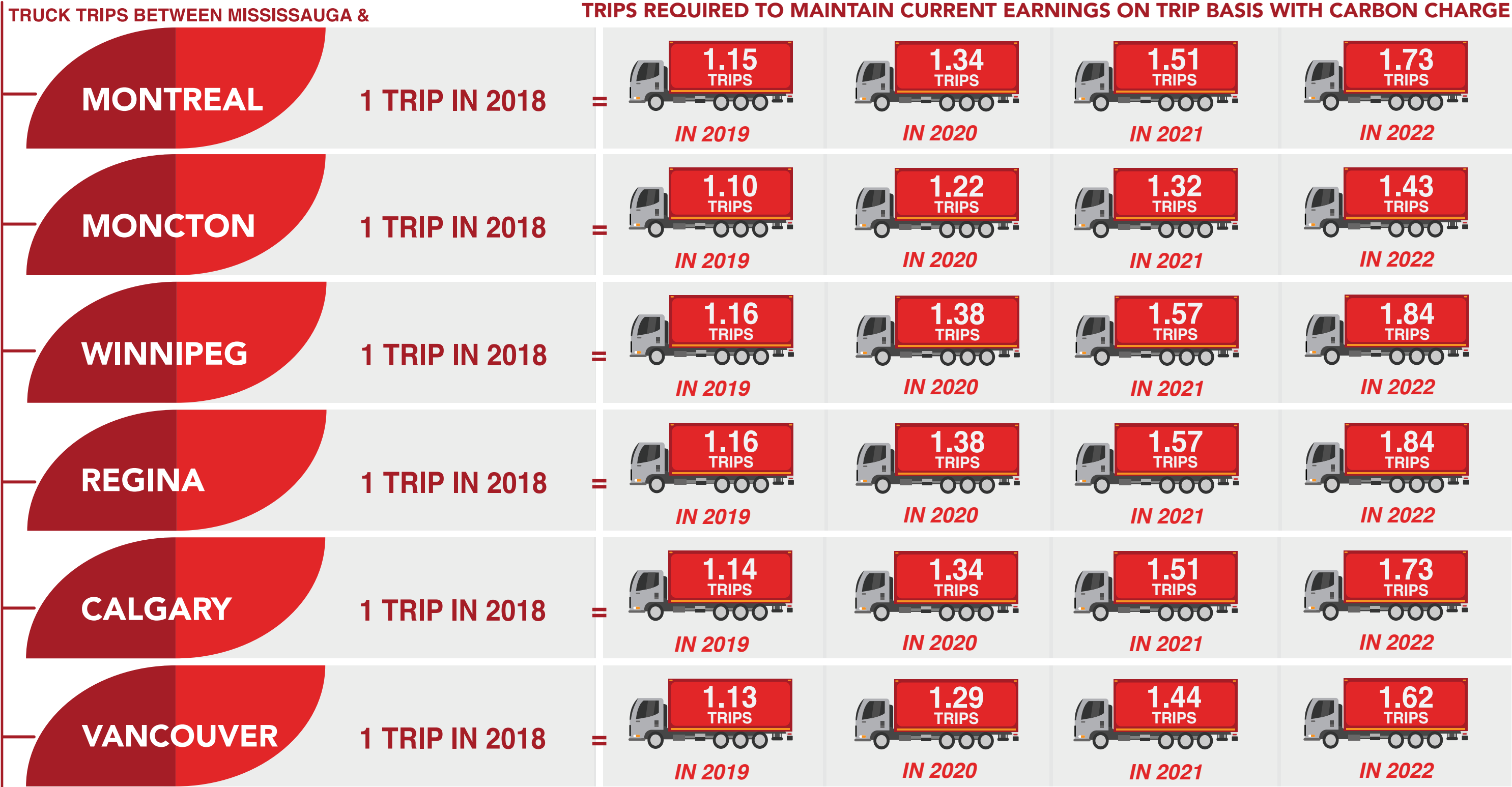
IMPACT OF FEDERAL

CARBON CHARGE

ON CANADIAN TRUCKING INDUSTRY

CHARGE 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