Alberta's Carbon Levy and Farmers

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Sorting the Facts from the Myths

Alberta's new Carbon levy has come into place as of January 1, 2017. The levy puts a price on carbon emissions of $20/t carbon in 2017, and $30/t carbon in 2018. There have been several measures put into place to ease the cost to producers, however. This document will help sort the facts from the myths on what impact the levy will have on you as a producer.

Facts and Myths

FACT:

The carbon levy is charged directly on the cost of heating and transportation fuels and only on these fuels. Marked fuels are exempt from the levy, which is an exemption not provided to any other industry. The following table illustrates the levy rates:

Type of Fuel	January 1, 2017 $20 / tonne CO2e	January 1, 2018 $30 / tonne CO2e
Marked farm fuels	Exempt	Exempt
Unmarked Diesel	5.35 ¢/L	8.03 ¢/L
Unmarked Gasoline	4.49 ¢/L	6.73 ¢/L
Natural Gas	1.011 $/GJ	1.517 $/GJ
Propane	3.08 ¢/L	4.62 ¢/L
Coal	$44.37 /tonne	$66.56 /tonne

FACT:

Alberta isn't new to carbon pricing; it has existed since the Specified Gas Emitters Regulation (SGER) was introduced in 2007. This regulation put a price on carbon emissions of $15/t CO2 Equivalent (CO2e) for large final emitters (large industrial operations with emissions greater than 100,000 tonnes CO2e per year) for carbon emitted at the smokestack. The compliance rate under the SGER increased to $20/t in 2016 and $30/t in 2017. The SGER will be replaced in 2018 with a new regulation based on sector specific efficiency targets.

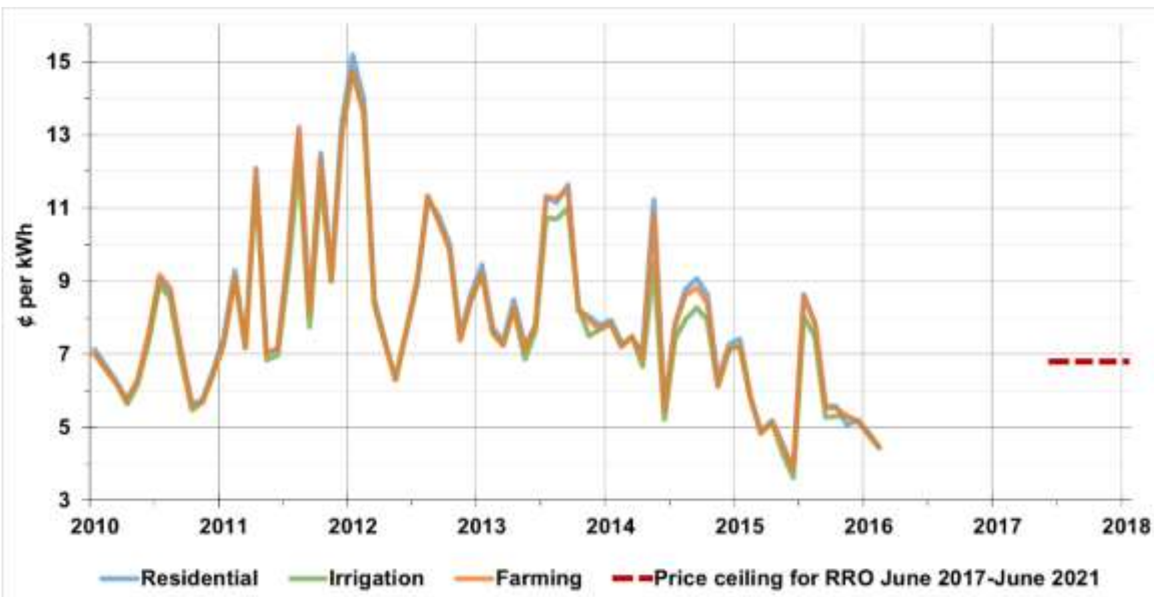
Alberta Government

FACT:

If you have been receiving carbon credits for zero-till cropping, you have been getting paid for sequestering carbon in the soil for up to 14 years. The value of these carbon credits will increase as the carbon price increases.

MYTH:

Albertans will pay a carbon levy on electricity. This is **false**. Alberta's electricity providers have been and will continue to pay as final emitters under the SGER. This means that Albertans won't pay a carbon levy directly on their bill. However, they may notice a small increase in electricity rates from 2016 prices as electrical providers will be subject to an increase in the compliance rate under the SGER. To help stabilize prices, a ceiling of 6.8¢/kwh has been established from 2017 until 2021. This caps prices at the low end of what electricity prices have been in Alberta since 2010.

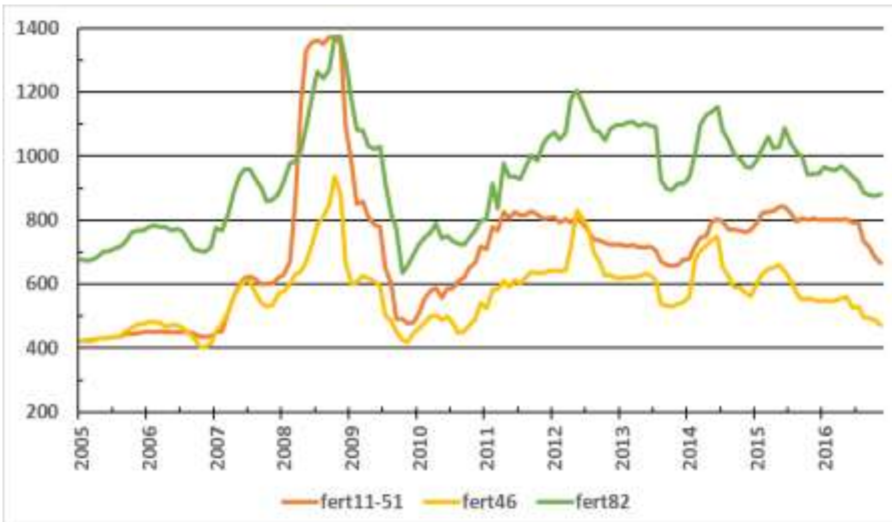


MYTH:

Custom freight will become unaffordable due to the increase in fuel costs. **This is false.** While fuel costs will increase with the carbon levy, fuel is not the only cost associated with freight. Like any other business, trucking companies have more than one cost that are included in what they charge for their service. They pay for the driver's wages, equipment, insurance, maintenance, and other associated costs in addition to fuel. As a result, the added carbon levy for diesel of 5-8¢/L represents about 1-2 per cent of the freight bill. To provide an example, a trucking bill of $500 should only increase by $5-10 as a result of the carbon levy.

MYTH:

Fertilizer prices will rise considerably as so much natural gas is used in the production of nitrogen fertilizers. **This is false**. Following the same logic as the electricity example above, fertilizer producers have been paying under the SGER since 2007. Their cost will increase marginally as the carbon price increases in 2017 and 2018. Fertilizer manufactures, like farmers, are price takers competing in an international market and are limited in their ability to pass on increased operational costs. As seen in the chart below fertilizer prices have fluctuated significantly since 2005, however, the SGER coming into effect is not the only contributing factor in fertilizer rates.



MYTH:

Grain drying will become an unaffordable practice as a result of the levy added to propane and natural gas. Based on several actual examples from the fall of 2016, the levy cost of drying grain in 2017 will range from 0.6¢/bu to 1.2¢/bu. It is also important to keep in mind that you may not use your dryer every year.

So what will the carbon levy cost your farm?

The most obvious costs will be heating fuel and grain drying. To estimate your increased costs look at your last few years' heating fuel bills and multiply the total GJ per year consumed by the factor in the carbon levy table above to estimate your annual cost. If you are using natural gas or propane for other uses like irrigation drives or grain drying, be sure to include those as well. Keep in mind that administrative, distribution, and transmission charges are not subject to the Carbon Levy, the levy is only charged on the actual GJ of natural gas consumed. For example, a farm using 200GJ per year of natural gas will pay an extra $202.20 due to the carbon levy.

You can also use the calculator in the following website to help estimate the annual cost of the levy:

https://www.alberta.ca/calculate-carbon-levy-rebate-and-costs.aspx

What about the unknowns?

Indirect costs will likely occur as businesses pass on their increased operating costs from the levy to their consumers. In some cases these costs will be built into the price of the product or service, others will itemize it as a separate surcharge in much the same way GST is reflected on sales receipts or invoices. Because many businesses are not completely clear on what their increased costs will be there may be some that overestimate the impact of the levy on their operation. While passing on production costs is a perfectly normal part of business/consumer relationships, it is important that you as the purchaser be aware of what constitutes a reasonable added cost and protect yourself from price gouging.

You now have the tools to determine how the levy is charged and whether or not the added cost is appropriate for the product or service being provided. For example, if the product or service required a large amount of fuel or natural gas, then it is reasonable to expect a higher cost as the business will pass the levy cost along, for instance in custom equipment work. However, if it is not a product or service that requires little or no fuel or heat, then there should be little to no added cost, like for professional fees. Lawyers or accountants will incur only marginal extra expense as a result of the carbon levy, mainly a few hundred dollars a year for office heat, so there is very little to no extra cost that should be passed along to the customer.

More Information

For more information on the Carbon Levy and Alberta's Climate Change Leadership Plan go to:
Alberta Climate Change Leadership Plan: www.climate.alberta.ca or call **1-888-279-2422**
Carbon Levy FAQ for Producers in Alberta: www.agriculture.alberta.ca/clevyinfo
Alberta Farm Fuel Benefit Program: www1.agric.gov.ab.ca/general/progserv.nsf/all/pgmsrv9
Carbon Levy Rates on Fuels: www.finance.alberta.ca/publications/tax_rebates/rates/carbon-levy-rates.html
Growing Forward Programs: www.growingforward.alberta.ca
Energy Efficiency Alberta Programs: www.alberta.ca/energy-efficiency-alberta.aspx
Agricultural Carbon Offsets: www.agriculture.alberta.ca/agcarbonoffsets
Ropin' the Web: www.agriculture.alberta.ca
Climate Change Leadership Plan Feedback: www.alberta.ca/climate-feedback.aspx
Ag Info Centre: **310-FARM (3276)**