

Opinion: Alberta's biofuels policies belong in the history books

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Alberta's current biofuel policies are reducing GHG emissions slightly, but are costing several times more than what will soon be possible with the province's new carbon price, write Bev Dahlby, Martha Hall Findlay and Christopher Ragan.

Alberta will soon have an economy-wide carbon price. Over time, it will reduce the province's greenhouse gas emissions and drive the innovation and cost reductions crucial for the future prosperity of the oil and gas sector.

This new policy also brings new responsibilities. In particular, it puts the onus on the government to rethink old policies that may now be redundant. One example is the policies encouraging the production and use of biofuels. These policies modestly reduce GHG emissions but do so at a much higher cost than we can justify, especially in a weak economy.

Biofuels are made from renewable biomass, and they are blended with gasoline and diesel to reduce the overall carbon content of transportation fuels. Governments across Canada, including in Alberta, have been encouraging the production and use of biofuels for several years. On the supply side, production subsidies provide direct cash payments to producers of biofuels. On the demand side, "renewable fuel mandates" require fuel distributors to blend gasoline and diesel with more costly biofuels, thereby increasing driving costs for consumers.

A recent report from Canada's Ecofiscal Commission estimates that Canadian biofuel policies have reduced the country's GHG emissions by roughly three megatonnes per year. Given Alberta's share of national fuel use, the province's reductions would be about 0.5 megatonnes annually. These reductions are quite small, but we recognize that every bit counts toward the overall long-term objective of making substantial emissions reductions.

The real problem is not that these policies haven't worked, but that the resulting emissions reductions have been very costly — much more expensive than what will soon be achievable with Alberta's new carbon price. The report estimates the fiscal cost to taxpayers of the production subsidies and also the cost to consumers of being required to use more expensive biofuels. From 2012 to 2015, the average cost for Canada was \$640 million per year. Taking Alberta alone, the average annual cost to the province's taxpayers and consumers was about \$113 million.

A better way to think of these costs is as the per-tonne price tag for the emissions reductions. For ethanol, the emissions reductions cost an average of about \$180 per tonne; for biodiesel, the average cost is about \$145 per tonne.

In order to know whether \$145-\$180 per tonne is a lot or a little, we need to compare the costs of emissions reductions achieved from biofuel policies with those that would be incurred by using

alternative policies. The smarter policy is the one that reduces GHG emissions at the lowest per-tonne cost. But which alternative policies should be considered?

Today, the obvious choice is to compare the costs of biofuel policies with the costs associated with an economy-wide carbon price. Estimates from other researchers show that British Columbia's carbon tax, which is currently \$30 per tonne, can reduce GHG emissions at an average per-tonne cost of just over \$28. The cost estimates from Alberta's new carbon price, which will be \$20 per tonne next year and \$30 per tonne in 2018, will be in the same ballpark.

So, what's the bottom line? Alberta's current biofuel policies are reducing GHG emissions slightly, but are costing several times more than what will soon be possible with the province's new carbon price. And their considerable fiscal cost makes it even more difficult for Alberta's government to balance its books. This makes little sense; these policies should soon become a thing of the past.

Being green should always be matched with being smart. Environmental gains should be achieved using the policy options with the lowest economic cost. If we do this, our policies will truly be win-win for the economy and the environment.

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