Joint Submission to the B.C. Ministry of Finance's Carbon Tax Review

August 31, 2012

Introduction

We are pleased to provide our recommendations regarding the review of British Columbia's carbon tax. Labour and environmental movements across Canada have called for a fair and effective price on carbon as one of the tools needed to transition to a low carbon future. As such, we recognize B.C.'s carbon tax as an important step in that direction.

Our recommendations are provided with two priorities in mind:

- Ensuring that the carbon tax is an effective tool – both for reducing greenhouse gas emissions in the province and creating green jobs.
- Ensuring that the carbon tax is a fair tool that puts all parts of society and all sectors of the economy on a level playing field such that they can all be part of the solution and contribute to the province's goals.

For both of these priorities, there are shortcomings in the design of B.C.'s carbon tax that are limiting its effectiveness and leading to inequitable impacts. These, in turn, undermine support for the carbon tax and climate change policy more generally. Our recommendations are designed to address these shortcomings.

We would like to stress that it is essential to not look at a single policy like the carbon tax in isolation; climate change is a complex problem with complex solutions that require an integrated approach. Carbon taxes can be an important part of that integrated approach, but to be successful they need to be complemented by other approaches such as regulation, research and development in public transit, and community planning that accounts for and facilitates reduced energy use.

Some critics might claim moving forward on B.C.'s carbon tax would damage the economy. That is simply not true. For example, Sweden (or Norway), a jurisdiction with a similar size, population, and economy has a carbon tax more than four times higher than B.C.'s for most sectors. Since Sweden's carbon tax was introduced in 1992, the country's economy has grown 44 per cent while greenhouse gas emissions have gone down by nearly 10 per cent. Last year, the World Economic Forum ranked Sweden second in the world on economic competitiveness.

Worldwide investment in clean-energy technologies totaled $243 billion in 2010, as many governments recognized the need to act on climate change, make the air cleaner and develop modern energy systems. B.C.'s abundant renewable energy resources, skilled workforce and strong engineering and knowledge sectors put the province in an ideal position to capitalize on this global trend.

Ensuring the carbon tax is effective

At $30 per tonne, the carbon tax does not provide a strong enough incentive to make low-carbon alternatives the preferred choice. Some economic research suggests B.C.'s carbon tax needs to increase to $150 to $200 per tonne of carbon pollution by the end of the decade to be effective at reaching the province's emissions reduction goal.

We recommend that B.C. continue to increase its carbon tax in 2013 and beyond so that it provides a stronger incentive to shift to low-carbon energy sources. We offer several important qualifiers to this recommendation:

- The rate increases should be set well in advance to provide certainty and predictability so that they give people and businesses time to plan and adjust, and avoid short-term price shocks that cannot be adjusted to.

- Carbon taxes are not a silver bullet; higher carbon tax rates will only be successful if they are part of an integrated approach. For example, investments in transit and electric vehicle infrastructure will make it easier for drivers to choose lower carbon options and avoid situations where people become frustrated because adequate solutions are not available.
- Absent of specific protections, carbon taxes can adversely impact low-income households. This outcome needs to be avoided as the carbon tax rate increases and as discussed below there are ample solutions available.
- Absent of comparable levels of climate action in other jurisdictions, an increasing carbon tax rate could place some B.C. sectors at a competitive disadvantage. The Province needs to actively monitor this risk as the carbon tax rate increases and proactively explore policy solutions that allow greenhouse gas reduction, economic development, and job creation goals to be met.

Levelling the playing field within B.C.

The carbon tax should be applied as fairly as possible, meaning that the rate is equally applied to all sources of greenhouse gas pollution in B.C. that are accurately measured. The broad application is important because it encourages investment in clean energy in as many sectors as possible, thereby spreading the effort across the province and building support for the carbon tax and climate change policy more generally. It is equally important to ensure that sources of emissions can be accurately measured, because without accurate measurement, it is impossible to reward a community or company for reducing their emissions.

B.C.'s carbon tax currently applies to almost all fossil fuel combustion in the province (roughly 75 per cent of emissions) at an equal rate ($30 per tonne). Several sources of industrial process emissions (i.e. not from the combustion of fossil fuels) are accurately measured, yet are not currently covered by the carbon tax. These sources are primarily from natural gas, cement, lime and aluminum production. Additional sources of emissions not covered by the carbon tax are from the greenhouse growers sector, which were provided with a 1-year exemption in April 2012.

Our perspective is that these exempted emissions should be fully covered by the carbon tax at the same rate applied to other sources in the province. This change would make the carbon tax fairer by increasing the coverage from 75 per cent to 82 per cent of B.C.'s emissions. At $30 per tonne, this would raise an additional $125 million per year for the

provincial government.[1] That revenue could be used to help the province transition to a future based on clean energy and, if necessary, help the sectors that would pay additional carbon tax invest in their facilities to reduce their greenhouse gas emissions.

Levelling the playing field with outside B.C.

Ideally we should be moving towards a world that sets a level playing field on climate policy around the world. The reality of today, however, is that a global solution remains elusive and individual countries, states, provinces and communities will need to continue demonstrating leadership to create the space for more broadly applied solutions. It is important to show leadership in a way that builds strong local economies, and positions a jurisdiction's businesses and industries to thrive in a climate-friendly world.

Carbon taxes provide a good illustration of this challenge. While they demonstrate leadership and help signal the importance of reducing emissions, they also potentially place their industries at a competitive disadvantage relative to jurisdictions with lower carbon taxes or less stringent climate policy. If left unaddressed, these types of competitive disadvantages could result in industries simply moving to the location with weaker climate policy, which would hurt the country, state or province trying to show leadership while achieving nothing for the environment.

Thankfully these risks can be mitigated and in many cases carbon taxes (even at higher rates) are not particularly material to a sector's overall competitiveness when compared to other factors such as access to skilled labour and exchange rates. One approach that we support is using a portion of carbon tax revenues to invest in projects that help B.C.'s industries reduce their greenhouse gas emissions. The focus of such investments should be directed towards projects that have long-term benefits and where competiveness is most at risk.

Another approach worth exploring in more detail is border tax adjustments on imported goods to impose the same cost on all sellers in our domestic market. Other jurisdictions are considering similar approaches (e.g. the Waxman-Markey Bill 2008 and Kerry-Boxer Bill 2009 in the United States and the Directive 2009/29/EC for the European Union's emissions trading scheme). The ability of a sub-national government to implement these types of policies needs further research, but it is worth investigating given the potential benefits for the province's economy and the incentive it would provide for other jurisdictions to adopt stronger climate policies.

[1] Estimate based on 2010 emissions reported in the 2012 National Inventory Report and a carbon tax rate of $30 per tonne.

Investing in solutions

B.C. is facing significant challenges today, which will intensify unless addressed. These challenges include a rapidly growing population, traffic congestion in urban regions, rising energy costs, and a lack of stable funding for critical infrastructure like transit and energy efficiency upgrades (for health authorities, schools, universities and colleges, crown corporations, and municipal infrastructure). In addition, B.C. is off track in achieving legally binding targets to reduce greenhouse gas emissions largely because the implementation of policy solutions and investment in alternatives has been inadequate to reduce emissions from oil and gas companies and transportation.

A “Better Future Fund” could improve B.C.'s carbon tax by increasing and broadening the price on carbon pollution beyond the current rate of $30 per tonne, and retooling it to fund critical green transportation and energy-efficiency solutions that would directly improve the quality of life for B.C. residents while reducing emissions. Using a portion of tax revenues to invest in green solutions and infrastructure is a fiscally responsible way to build healthier communities and a strong and innovative economy.

Implementing the Better Future Fund is a feasible solution with a myriad of benefits. Communities will see new investment and jobs, a balanced transportation system, reduced vehicle traffic, cleaner air, more green spaces, energy savings, and best of all a better quality of life. By putting a strong price on carbon pollution, this solution can fight climate change while transforming B.C.'s industrial facilities into leaders in energy-efficiency and cutting-edge clean technologies. B.C. can ensure a fair approach across urban and rural regions by ensuring that investment is targeted at locally identified green infrastructure priorities in all parts of the province.

The public sector warrants specific mention as a sector in need of investment targeted at low-carbon solutions. The sector is in the unique position of facing a higher price on carbon ($55 per tonne) than the rest of the province because of the carbon neutral requirements. It is also in the unique position of not receiving any money back from the carbon tax or carbon offset payments it was making.[2]

The net result of these policies for the public sector is a worthy objective (demonstrating leadership on climate change solutions) that is not supported by the resources needed to achieve that objective, given that the demands to continue meeting traditional objectives (e.g. the delivery of a high quality healthcare system) remain unchanged. In essence the public sector has been placed in a position of having to trade off long-standing

[2] In April 2012, this situation was changed for K-12 schools when the provincial government committed to making an amount equal to their carbon tax paid each year available for investments low-carbon solutions in their buildings and fleets.

requirements to meet the public service needs of British Columbians with new requirements to reduce greenhouse gas emissions. The net result is that the quality of services is being adversely affected.

Carbon pricing should send clear price signals to public institutions that encourage them to examine and reduce their carbon footprints. It also needs to be designed in a way that enables and supports them to make investments in mitigation projects. The carbon tax and carbon neutral requirements accomplish the first part of this objective, but a significant funding gap remains for the public sector, which limits their ability to identify, assess and implement solutions while continuing to provide public services. Public institutions must have access to the resources needed to lower their emissions and avoid having to pay the carbon tax and purchase offsets wherever possible.

The Province does not need to look far for models that can address this resource gap. The Public Sector Energy Conservation Agreement (PSECA) between the Province, BC Hydro and Fortis BC provided $75 million in much needed grant funding for public sector projects when the carbon neutral requirements were first implemented. The program had far more applications than funding allowed for in the three years it was provided before ending in 2010.

Going forward, the Province needs to increase investment in the public sector such that greenhouse gas reduction objectives are not presented as a tradeoff with longer-standing objectives. The PSECA fund and potentially the recently announced funding for K-12 schools are both models that could address this gap if extended across the public sector and given long-term continuity. It is also important that funding be stable and predictable so that projects can be planned for well in advance as part of an overall investment strategy for the public sector's buildings and fleets. In the spirit of linking the carbon tax directly with climate change solutions, we recommend a portion of carbon tax revenue be earmarked for investment in the public sector to close the resource gap discussed above and help B.C.'s public sector truly demonstrate leadership on climate change without adversely affecting the quality of the services they provide.

Protecting low-income households and supporting transitions

Lower-income people will not only suffer the most from the direct effects of climate change, but they will also be disproportionately affected by increasing fuel and food prices since they spend more of their budget on these necessities.

In British Columbia the carbon tax puts greater upward pressure on the prices for fossil fuels, transportation, food, and most other goods and services. As British Columbia's carbon tax rate continues to increase, lower-income households will end up directing an

increasingly larger share of their already limited income to paying the carbon tax and energy costs. This will further diminish the ability of lower-income households to make investments in low-carbon solutions to reduce the amount tax they pay and cause many to become locked into carbon-intensive lifestyles.

When B.C.'s carbon tax was first implemented it was progressive for low-income households because of the low-income climate action tax credit financed by carbon tax revenues. However, the increase in the credit has not kept pace with increases in the carbon tax rate, and today the result is a regressive impact on low-income households. In fact, the combined effect of personal and corporate tax cuts means that on average the poorest 20 per cent of British Columbians face a net loss of 1 per cent of their income, while the richest 20 per cent see a net gain.[3]

As a matter of fairness a larger share of carbon tax revenue should flow back to British Columbians with a focus on low- and moderate-income households. As a starting point, the low-income climate action tax credit should be enhanced so that low-income households are fully compensated for anticipated carbon tax costs (including rate increases since 2008 with which the credit has not kept pace).

Financial compensation is not the only way to mitigate potential impacts on low-income British Columbians. Programs targeted to help low-income households reduce their greenhouse gas emissions (and carbon tax payments) are also worth pursuing. Most of the incentive programs B.C. currently has in place provide minimal value for low-income households because they either rely on home ownership (e.g. the LiveSmart home energy upgrades) or they target more expensive items that are unaffordable for low-income households (e.g. the Clean Energy Vehicle program).

Those types of programs targeted at middle to higher-income British Columbians need to be complemented by programs that directly benefit lower-income households. For instance, transit investments could be focused into low-income neighborhoods to increase the mobility and opportunity available to those communities. Rebates could be offered for the purchase of pre-owned electric and hybrid vehicles to allow lower-income drivers to lower fuel and carbon costs. District heating and energy efficiency investments could be targeted at low-income housing to help those households reduce their energy and carbon tax bills and make their homes healthier and more comfortable to live in.

[3] Lee, Marc (2011) "Fair and Effective Carbon Pricing: Lessons from BC", *Canadian Center for Policy Alternatives.*

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