

Building a Low-Carbon Economy in British Columbia: Recommendations to Strengthen B.C.'s Carbon Tax

Context

By implementing North America's most ambitious carbon tax, B.C. demonstrated leadership in moving toward a low-carbon economy. The carbon tax will help the province reduce greenhouse gas pollution by sending a clear and increasing signal that investment decisions and behaviours that are good for the planet will also make economic sense.

Regardless of how B.C. participates in evolving cap and trade systems, there is a clear role for B.C.'s carbon tax in an effective climate action plan. Until those systems are sufficient to help B.C. achieve its climate action goals, it makes sense to continue strengthening the carbon tax so it is as fair and effective as possible. A stronger carbon tax will lead to:

- Greater greenhouse gas emission reductions throughout B.C.'s economy.
- More investment, innovation, and job creation in B.C.'s low-carbon businesses, ensuring the province is well positioned to compete in a carbon-constrained world.
- Increased support for the carbon tax as communities, businesses and families see the tax enabling emissions reductions and supporting investment and job creation in low-carbon businesses.

Recommendations

Four key recommendations to strengthen the carbon tax are summarized in the following table and described in more detail on page 2. All of these opportunities could be implemented as early as the 2010 budget. Broadening the carbon tax's coverage and continuing to increase protection for low-income families should be the top priorities in 2010.

Recommendations to Strengthen B.C.'s Carbon Tax
1. Broaden the carbon tax to cover 80% of B.C.'s greenhouse gas emissions by including process (i.e. not from combustion) emissions from the aluminum, lime, cement and natural gas sectors.
2. Continue to increase protection for low-income families so they are not adversely affected by the carbon tax as it increases over time.
3. Increase the carbon tax above \$30 per tonne after 2012.
4. Invest a portion of carbon tax revenues in projects that will reduce emissions.

The four key recommendations to strengthen the carbon tax are detailed in the following table.

Recommendation	Details	Implications
<p>Broaden the carbon tax to cover 80% of B.C.'s greenhouse gas emissions by including process (i.e. not from combustion) emissions from the aluminum, lime, cement and natural gas sectors.</p>	<p>The proposed additions should be included in the carbon tax base on July 1, 2010 at \$20 per tonne. The changes would increase coverage by 7%.</p> <p>The proposed additions are all measurable with a reasonable degree of accuracy, and they all fall under B.C.'s mandatory emissions reporting rules.</p> <p>While the proposed additions will likely be regulated by a cap and trade system in the future, they should be covered by the carbon tax at least until those systems are sufficient to help B.C. achieve its climate action goals.</p> <p>See page 3 for further information.</p>	<p>Spur emissions reductions from as many sectors of the economy as possible.</p> <p>Eliminate concerns that the carbon tax is not applied equally to some industrial emitters.</p> <p>Increase carbon tax revenue in 2010/2011 by \$200 million.</p> <p>Give all B.C. businesses a head start as the province moves toward a cap and trade system.</p>
<p>Continue to increase protection for low-income families so they are not adversely affected by the carbon tax as it increases over time.</p>	<p>The 2010 budget should provide adequate protection for low-income families in 2012. Currently, no increase in protection is scheduled in 2012, while the carbon tax is scheduled to increase.</p> <p>Protection can be provided via expanded low-income tax credits and/or emissions reduction efforts targeted at low-income families (e.g. energy retrofits).</p> <p>The 2010 budget should also communicate how potential impacts on low-income families are being mitigated.</p>	<p>Increase public support for the carbon tax by resolving the concern that the carbon tax is adversely impacting low-income families.</p>
<p>Increase the carbon tax above \$30 per tonne after 2012.</p>	<p>According to <i>Climate Leadership, Economic Prosperity (Pembina et. al., 2009)</i>, national carbon prices need to reach \$200 per tonne by 2020 for Canada to equitably contribute to a global effort to avert dangerous climate change.</p> <p>To be approaching these numbers, B.C.'s carbon tax would need to increase by between \$15 and \$30 per tonne per year from 2013 to 2020.</p> <p>The carbon tax price schedule should also extend more than three years and provide an indication of the anticipated medium-term price (2020).</p>	<p>Strengthen efforts to reduce emissions because of the increased and longer-term price signal.</p> <p>Provide greater certainty for businesses and families that decisions to implement low-carbon technologies will make sense economically.</p> <p>Provide increasing fiscal flexibility to invest in other priorities (e.g. income or business tax reductions, and climate change mitigation).</p>
<p>Invest a portion of carbon tax revenues in projects that will reduce emissions.</p>	<p>In <i>Climate Leadership, Economic Prosperity (Pembina et. al., 2009)</i>, Canada is able to achieve science-based GHG reductions in part because 22% of carbon pricing revenue is directed toward projects that will reduce emissions.</p> <p>Investment should be targeted at opportunities unlikely to occur without public funding (e.g. electricity transmission and public transit infrastructure).</p>	<p>Implement emissions reductions projects unlikely to happen without public investment.</p> <p>Increase public support for the carbon tax by linking the price on carbon directly with government mitigation efforts.</p>

B.C.'s Carbon Tax – What Emissions Does it Apply to?

B.C.'s carbon tax currently applies to almost all of the greenhouse gas emissions that result from burning fossil fuel in the province. That includes the emissions from residential, commercial, and industrial sources and accounts for approximately 73% of B.C.'s total emissions.

The carbon tax currently excludes all of the greenhouse gas emissions that result from non-combustion processes. Examples include methane emitted from landfills and methane leaking from natural gas pipelines.

The following figure shows the carbon tax's coverage currently and if the recommendations detailed in this backgrounder are implemented.

