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The B.C. Carbon Tax: Myths and Realities

While misconceptions about the B.C. carbon tax have grabbed many of the headlines, important discussions about the solutions to global warming need to occur if B.C. is going to achieve a greener, brighter future. For more than a decade, many Canadian environmental organizations have been calling for a form of carbon tax to reduce global warming. We present the following “reality check” fact sheet in an effort to ensure the carbon tax discussion in B.C. is based on fact and not misinformation.

Top five misconceptions about B.C.’s carbon tax

1. The B.C. carbon tax won’t reduce emissions.

Economic modelling conducted by M.K. Jaccard and Associates concluded that the B.C. carbon tax will reduce B.C.’s emissions by three million tonnes annually by 2020. That represents just over eight per cent of the effort required to reach B.C.’s goal of reducing greenhouse gas emissions 33 per cent below 2007 levels by 2020 (about a 36-million-tonne annual reduction).

This projection actually underestimates the potential of the B.C. carbon tax because it assumes the B.C. carbon tax would not increase past its 2012 rate of \$30 per tonne of carbon pollution. A carbon tax is a powerful economic tool that can reduce much more of B.C.’s harmful emissions if it continues to increase over time beyond 2012, and if it is coupled with other strong measures (for example, tough regulations for the energy efficiency of vehicles and homes, as well as a major scale-up of transit investments).

Under the existing legislation, increases in the carbon tax would be accompanied by decreases in personal and some business income taxes, as well as tax credits for low-income earners.

2. Big industry is let off the hook.

Not true: B.C.'s carbon tax covers emissions from burning fossil fuels, for both business and individual consumers. Because industry and business burn more fossil fuels than households, they will pay more of the carbon tax. The carbon tax applies to about two-thirds of the total greenhouse gas emissions produced by industry.

B.C.'s carbon tax applies to 70 per cent of total greenhouse gas emissions. Of the remaining 30 per cent, about 14 per cent are associated with emissions produced by agriculture and decaying garbage in landfills. Another 16 per cent are associated with industrial emissions that do not come from burning fossil fuels. These include emissions released intentionally or unintentionally during the production, processing, and transmission of fossil fuels in the oil and gas sector, such as leaks from natural-gas pipelines. Another example is the production of lime in making cement, which has carbon dioxide as a byproduct.

The B.C. government has promised to reduce emission sources not subject to the carbon tax through regulations (at municipal landfills, for example) or through a cap-and-trade system for industrial emitters. This is a legitimate and practical approach as long as these regulations come into effect by early 2009 and are well designed. An alternative approach would be to broaden the carbon tax to cover these additional sources. A delay in implementing these regulations (or in broadening the carbon tax) on the remaining industrial emissions would be unfair as B.C. households and many businesses are taking responsible action now because of the carbon tax incentive.

3. B.C.'s carbon tax is a "tax grab" or additional tax.

B.C.'s carbon tax is not an additional tax. It's a tax *shift* – and it's revenue neutral. By law, all revenue collected through the carbon tax must be returned to British Columbians through cuts to personal income taxes and some business taxes. As well as receiving these tax reductions, British Columbians can also choose to save money by making green choices that don't expose them to the carbon tax. A higher price for higher-carbon-emission choices also makes greener options more commercially viable, thereby encouraging businesses and entrepreneurs to develop innovative and affordable low-carbon alternatives for households and businesses.

Leading economists and environmental experts agree: seeing that cost and making it real will give us incentives to change the technologies and habits that created global warming in the first place.

4. B.C.'s carbon tax will unfairly penalize consumers who are reeling from high international oil prices.

A carbon tax can help protect B.C.'s economy from high oil prices by creating an incentive to shift to greener options that diversify our energy resources and away from oil and other fossil fuels. A carbon tax provides the economic incentive for companies and households to pollute less by investing in clean technologies or by adopting greener practices. A shift by households, businesses, and industry to cleaner technologies increases the demand for energy-efficient products and helps spur innovation and investment in green solutions. And although the carbon tax makes polluting activities more expensive, it makes green technologies affordable and actually helps get these greener solutions into use.

B.C.'s carbon tax will be phased in slowly, starting at a low rate and increasing gradually to give individuals and businesses time to adjust. The carbon tax is also fair to low-income families in the two years now covered by the B.C. government's plan because the tax relief and tax credits more than offset the carbon taxes they will have to pay. The concern that the carbon tax could grow faster than the low-income credit over time should be addressed as the tax evolves. By law, B.C.'s finance minister must develop a three-year plan every year that clearly demonstrates how the revenue will be recycled back to all British Columbians, including low-income earners.

Looking at where those dollars flow illustrates the significant difference between rising international oil prices and increases to B.C.'s carbon tax. As international oil prices rise, British Columbians pay more for gasoline and diesel. That money leaves the local economy, generating profits for foreign oil and gas companies. But, as the B.C. carbon tax increases, the money is returned to British Columbians through lower income taxes as well as some lower business taxes.

Note: The B.C. carbon tax coming to effect July 1st has had nothing to do with high gas prices experienced internationally due to market forces.

5. B.C. has introduced a "gas tax".

It's a carbon tax. B.C.'s carbon tax applies to the burning of nearly all fossil fuels in the province, whether the greenhouse gas pollution is from industry or individual consumers.

In fact, gasoline accounts for less than a quarter of fossil-fuel emissions subject to the carbon tax. More than 75 per cent of the carbon tax revenue will come from other fossil fuels, including coal, coke, diesel, and natural gas.

Conclusion

One fundamental issue regarding Canada's contribution to global warming is that the atmosphere is treated as a free dumping ground for harmful, heat-trapping emissions. The world's leading climate-change experts and several international working groups, including the United Nations Intergovernmental Panel on Climate Change, support and endorse pricing carbon emissions through a carbon tax or other means. Many industrialized countries and jurisdictions are now putting a price on carbon emissions to account for their full environmental and economic costs.

For example, Sweden has used a carbon tax to reduce greenhouse gas emissions since 1991. Although Sweden has employed a suite of other policies to reduce emissions, its environment ministry estimates that the carbon tax has led to cuts in emissions of 20 to 25 per cent above cuts due to regulations. Sweden's carbon emissions have decreased more than seven per cent since 1990. Its carbon tax has been credited with spurring innovation and development in the field of low-carbon energy technologies such as green-heating technologies that have led to significant reductions in the use of oil for home heating. Sweden's carbon tax has also been credited in part for putting the country on target to achieve and honour its commitment under the Kyoto Protocol.

Moving the discussion forward in B.C.

A debate about how to best move forward with climate action in B.C. is important, but it is critical that the debate happen with accurate information about the key policy options such as the carbon tax. Some key questions that need be debated if B.C.'s carbon tax is to be an effective component of B.C.'s overall strategy are:

- At what rate should the tax increase after 2012 when it is \$30 per tonne? The price on Canada's greenhouse gases needs to reach at least \$75 per tonne by 2020 in order to reduce national greenhouse gas pollution to approximately the 1990 national levels, according to the National Round Table on the Environment and Economy.
- How should the one third of industrial emissions not currently covered by the tax be dealt with? They could be covered by the proposed cap-and-trade system if it is designed well and implemented quickly, or the carbon tax could be expanded to include the additional sources.
- What additional policies and tax cuts and credits will be needed to ensure that all families and businesses in B.C. are in a position to be part of the solution? These challenges will be particularly relevant for low-income families.

Figure 1: Application of B.C. carbon tax by greenhouse gas emission source.

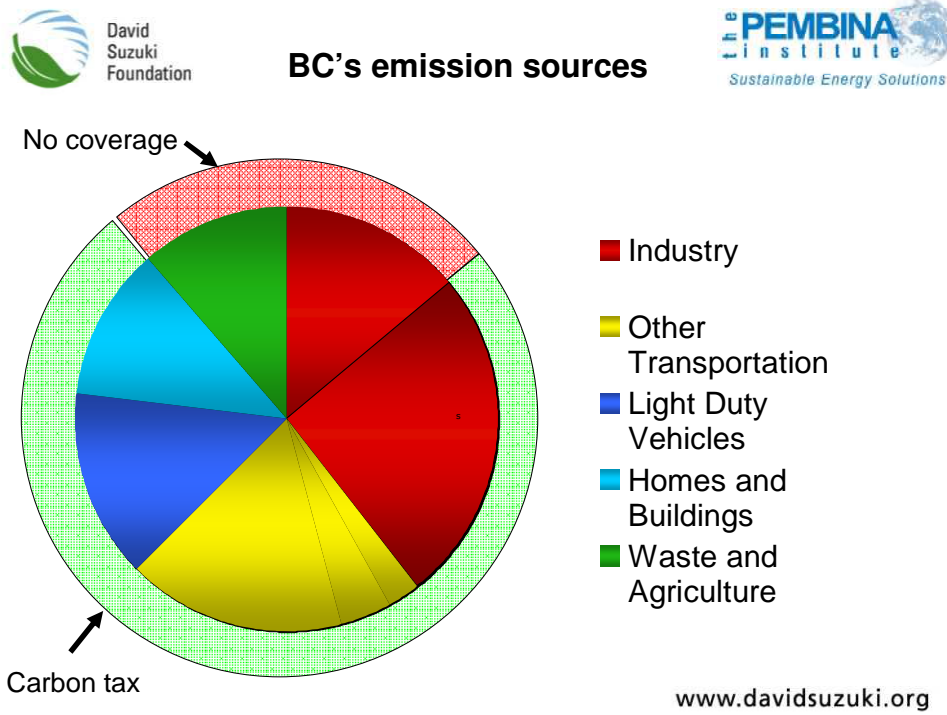


Figure 2: Potential for industrial regulations to cap and reduce greenhouse gas emissions by source.

