Carbon Tax Review

Government introduced the carbon tax to help reach its goal of reducing BC's greenhouse gas emissions by at least 33 per cent below 2007 levels by 2020.

The carbon tax was implemented on July 1, 2008, with tax rates for each fuel equal to \$10 per tonne of carbon dioxide equivalent (CO_2e) emissions. The rates were increased by \$5 per tonne annually until reaching \$30 per tonne of CO_2e on July 1, 2012.

With the final scheduled increase taking place in July 2012, and no further rate increases or policy changes planned, government decided in early 2012 that it was an appropriate time to consider the impact of the carbon tax on British Columbia.

It was announced in *Budget 2012* that the carbon tax would be reviewed as part of the *Budget 2013* process. The review was to cover all aspects of the carbon tax, including revenue neutrality, and consider the impact of the carbon tax on the competitiveness of BC businesses, particularly those in the agricultural sector.

British Columbians were invited to make written submissions to be considered as part of the review.

Public Input

More than 2,200 British Columbians – over 2,000 individuals and about 110 businesses, industry associations, environmental organizations, local governments and other stakeholder groups, organizations, associations and entities – made submissions to the Minister of Finance as part of the carbon tax review.

Many British Columbians support the carbon tax and would like to see government continue to increase the rate and expand the tax base to include industrial process emissions.

Others, including a number of BC businesses and industry associations, expressed concern about the impact the tax is having on their competitiveness and requested tax relief or other concessions. Some requested that the tax be reduced or eliminated entirely.

There are also a variety of views about revenue neutrality, with some strongly supportive and others wanting carbon tax revenues used for environmental programs and initiatives.

Interjurisdictional Context

Carbon pricing regimes around the world vary with regard to which fuels, industries, and energy uses are covered. Some jurisdictions take a very broad approach and capture both households and industry, while others take a more targeted approach, capturing only larger industrial emitters.

Carbon pricing systems often include some form of relief for energy intensive and trade exposed industries to protect domestic industries, although which industries are considered energy intensive and trade exposed differs by jurisdiction.

Carbon pricing relief can apply broadly or be targeted to specific sectors, and can take a variety of forms, including broad-based carbon tax revenue recycling, exemptions or reduced rates, and various forms of conditional relief.

When British Columbia's carbon tax was introduced in 2008, greenhouse gas mitigation was a key public policy concern around the world. It was expected that other jurisdictions would implement similar carbon pricing policies and work with BC on cooperative solutions such as a North American cap and trade system, and it was intended that the carbon tax be integrated with other measures as they were implemented.

While a number of jurisdictions have expressed interest in carbon taxes or other forms of carbon pricing since that time, carbon pricing remains most common in Europe.

Some jurisdictions in Canada and the United States have smaller, targeted carbon pricing mechanisms, and Quebec and California have cap and trade systems. However, almost five years after its implementation, British Columbia's carbon tax remains the only one of its kind in North America and a national or North American broad-based carbon pricing strategy does not appear likely to proceed in the near future.

Competitiveness / Economic Impact

The general findings of economic research on the effect of greenhouse gas mitigation on economic output are that mitigating greenhouse gas emissions will have a small negative impact on the level and growth of economic output, and that macroeconomic costs can be reduced if mitigation measures are phased in gradually.

Economic analysis conducted for the carbon tax review indicates that BC's carbon tax has had, and will continue to have, a small negative impact on gross domestic product (GDP) in the province. Increasing the carbon tax beyond the current $30 per tonne would have a stronger negative effect on economic growth.

Analysis indicates that, as expected, the economic impact of British Columbia's carbon tax varies by industry and some industries are more impacted than others. Industries with high emissions intensities, such as cement production, petroleum refining, oil and gas extraction and some other manufacturing subsectors, are most impacted. Other industries are less impacted.

While the carbon tax at current rates does not appear to have a significant impact on BC's overall economic performance, a number of sectors have expressed concerns about the impact of the carbon tax on their competitiveness. Increasing the carbon tax rates or expanding the base to include industrial process emissions would increase costs for BC businesses and increase competitiveness concerns.

Climate change is a global issue and addressing it requires coordinated international action. Maintaining the current rates and base will help to ensure BC is not diverging in a substantial way from policies in competing jurisdictions. When other jurisdictions, especially those within North America, introduce similar carbon taxes or carbon pricing, government may again review and consider changes to the carbon tax.

Outcomes / Decisions

Carbon Tax Rates and Carbon Tax Base

Carbon tax rates will not be increased. They will be maintained at $30 per tonne of CO_2e.

The carbon tax base will not be expanded or broadened to include industrial process or other non-combustion emissions.

Revenue Neutrality

When the carbon tax was introduced, one of the key principles was that the tax would be revenue neutral – that all carbon tax revenue would be returned to individuals and businesses through reductions in other taxes and not used to fund government programs.

The principle of revenue neutrality will be maintained. Carbon tax revenues will continue to be recycled through tax reductions and not used to fund programs or other initiatives.

Carbon Tax Relief

Government believes that a revenue neutral carbon tax, where tax reductions are applied broadly across individuals and industries, is the best way to protect overall economic growth, while still creating a meaningful incentive to reduce greenhouse gas emissions.

British Columbia will continue to provide relief primarily through broad-based tax reductions for businesses, individuals and families.

Relief must also be considered in the context of the overall tax system, fiscal situation and government spending priorities. Providing additional relief would reduce revenues, which government would have to compensate for either by generating revenue in another way – for example, through increases in the carbon tax rate for other British Columbians or increases in other taxes on businesses, individuals or families – or by reducing spending on government programs and services. The only other alternative would be to increase the deficit, shifting the burden to future generations.

BC continues to be a leader in climate action by having a carbon tax that puts a price on emissions to encourage individuals, businesses and others to use less fossil fuel and reduce emissions. Maintaining the current carbon tax rates, base and structure will help to ensure BC has a balanced approach to climate action.

Agri-food and Agriculture Sector

Agriculture has a unique place in British Columbia and is integral to the social and economic fabric of communities throughout the province.

Providing relief for greenhouse growers also recognizes that, although the greenhouse industry is not the only industry with competitiveness challenges, greenhouse growers are distinct from most others in that they need carbon dioxide and purposely produce it because it is essential for plant growth.

June Update 2013 reconfirms government's commitment to provide an ongoing carbon tax relief grant for commercial greenhouse growers, including vegetable and floriculture growers, wholesale production and forest seedling nurseries. The grant will be available for the 2013 and future years, and will be set at 80 per cent of the carbon tax paid on natural gas and propane used for heating and carbon dioxide production. Further information is available at *http://www.gov.bc.ca/agri/*.

A healthy agri-foods sector is important to BC's future, and maintaining the affordability and competitiveness of locally produced agricultural products is essential. Providing carbon tax relief to the sector will help to ensure that BC farmers are able to continue providing British Columbians with healthy, nutritious, local food.

Government will provide a carbon tax exemption, effective January 1, 2014, for coloured gasoline and coloured diesel fuel purchased by farmers for the same farm purposes that farmers are authorized to use coloured fuel under the *Motor Fuel Tax Act*. This means that farmers will be exempt from carbon tax on the purchase of coloured gasoline and coloured diesel fuel used for farm purposes, including in on-farm equipment and in eligible farm trucks on the highway.

These measures will provide a combined benefit of about $11 million annually.