

Department of Economics
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ECO2118 A

Introduction to Environmental and Natural Resource Economics

Term Paper

BC's Carbon Tax

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Introduction

Starting July 1, 2008, B.C. put a tax on fossil fuels (which cause greenhouse gas emissions) which started low and rose annually, reaching today's \$30/tonne (about 7 cents a litre of gas) in 2012 (Lipsey & Elgie, 2015).

The objective that carbon tax that BC has implemented is to reduce greenhouse gas emissions by reducing fossil fuel use, without trying to harm the economy. The tax is a great beginning to creating a solution for climate change. The main objective the carbon

tax is trying to hit is to build a proper economic future and at the same time, work towards progression on climate policy.

History of the Policy

One of the greatest challenges our generation is currently facing is climate change. Many well-respected climate experts worldwide from the Intergovernmental Panel on Climate Change showed proof that human activities are affecting Earth's climate through their Synthesis Report on climate change in 2007. The government of British Columbia implemented the tax. On February 19th, 2008 they announced that they had the intent of implementing the tax starting July 1st, 2008.

B.C's carbon tax began in 2008 with a rate of \$10 per metric ton of carbon dioxide, increasing at \$5 per ton each year. By July 2012, it came to \$30 per ton and has remained constant at that price. The core elements of the policy remained constant. However, the reason why the province made adjustments to the carbon tax year by year was to ensure that households and businesses are able to make efficient adjustments to better adapt to the situation. The Carbon Tax is a pillar in B.C's climate change strategy. It includes most fossil fuels used, which includes diesel, propane, gasoline, coal and natural gas. The rationale is to reduce greenhouse gas emissions through a reduction of fossil fuel use by inflicting a tax on the fossil fuels that give rise to the emissions. The tax is also working to increase attractiveness of cleaner alternatives, as well as guarantee that those who create emissions pay for them.

In 2009, B.C had a general election. The NDP (New Democratic Party) in British Columbia were committed to “Axe the Tax”. NDP leader Adrian Dix and the rest of the NDP brought on the impression that the carbon tax is not linked to environmental initiatives. Also, former Prime Minister Stephen Harper claimed that a carbon tax would decrease jobs and economic growth. However, years after British Columbia passed the tax as regulation, there is now evidence that proves Harper’s theory as incorrect.

Policy Analysis

The policy works and is achieving its objectives. After six years of the tax being in place, it has been acknowledged as both an economic and environmental success due to the latest numbers from Statistics Canada. B.C.’s fuel use has reduced a total of 16.1%, while its economic growth kept up with the rest of the provinces. British Columbia has the lowest personal income tax rate, as well as one of the lowest corporate tax rates in Canada. On the economic side of the matter, tax payers are coming out on top and B.C.’s GDP has done slightly better than the rest of Canada since the tax was introduced in 2008. B.C.’s tax policy shows that their economic objectives can be achieved while strengthening the economy.

On economic grounds, this policy proves to be reasonable. A popular myth was brought up by those opposed to the policy that the tax raises new revenues for the province of British Columbia. However, that is not nearly accurate to the truth. The government

stated that every dollar collected from the tax would be returned to taxpayers and businesses through tax cuts. This is what's called revenue neutrality, and has worked over the years. The way it works is the Minister of Finance in B.C. must create a three-year plan each year in order to show how the capital will be returned to all British Columbians. In order to protect low-income earners from any negative unintended effects, the government created a tax credit for those classified as low income earners.

Yes, the tax is efficient. As the province reduced emissions throughout the years, all tax dollars collected with this policy are returned fully to taxpayers through tax reductions. This means that British Columbians are not losing any money, and at the same time they have that economic incentive to reduce emissions and improve our environment.

The clear winner is the environment. Emissions have reduced at a substantial amount, and at the same time the economy has not taken any unintended damages. Before the policy was introduced, certain British Columbians assumed that the economy would depreciate, therefore pay the price for an improved environment. This is clearly not the case. There is no definite loser, however, the government may be considered a loser if namely there was one. In reality, the tax cuts have cancelled out more than the revenues received from the carbon tax, which then means that the policy was moderately revenue negative for B.C.'s government.

Policy Alternatives

Cap and trade is an alternative policy for controlling and reducing carbon pollution. This alternative sets a limit, or cap, on the total carbon pollution. Year by year, the government reduces the cap to be able to get to their set pollution goal. As that cap gets smaller every year, the government forces polluters to purchase pollution quotas from other companies if they exceed the limit of their emissions.

The reason as to why the carbon tax was chosen over cap and trade was because of its simplicity, and that the policy is much easier for the government to implement rather than cap and trade. The goal was for the price to provide an incentive for industries and households to cut down on emissions through a policy that is much simpler and quicker for the government to implement.

The advantage that Cap and Trade has is that it generates a lot more sureness over the quantity of emissions that would be reduced, although doesn't have much sureness over emission prices. The advantage that the Carbon Tax has and has won over the Cap and Trade is that it is substantially simpler and easier to implement.

Conclusion

After years of the policy being implemented and in action, British Columbia has proved to be a leading example for Canada in reducing emissions and aiding the environment

while keeping their economic progress at the same level as the rest of the provinces. They have demonstrated that it is very well possible to aid our environment while maintaining a strong economy.

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