

British Columbia's Carbon Tax is an Opportunity for Christy Clark

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The British Columbia government is planning to announce the next phase of its carbon tax sometime in June, and it is coming under plenty of pressure. Environmental groups want the carbon tax to keep rising, so the province can achieve its aggressive target for reducing GHG emissions. Parts of the business community are urging caution, worried about the effect on competitiveness, and arguing that B.C. should wait for other provinces to catch up. What should Premier Christy Clark do?

Let's start with the basics. B.C.'s carbon tax is a well-designed and broad-based tax that applies to about 70 percent of the province's GHG emissions. Revenues from the tax are used to reduce personal and corporate income taxes, which are now among the lowest in the country. Research shows that the carbon tax has led to modest emissions reductions that would not have occurred in its absence, and B.C.'s economy has outperformed the rest of the country. For those people arguing that we can reduce emissions and maintain economic prosperity, the B.C. case offers solid supporting evidence.

At the same time, the business community is right to be concerned about what a higher carbon tax might do to its competitiveness. The issue applies most to the emissions-intensive sectors selling their products into international markets in which they can't influence the price—cement, lime, coal, refining, aluminum, and natural gas. For these sectors, the carbon tax significantly drives up their costs, and the danger is that their operations may eventually move toward jurisdictions that aren't so committed to carbon pricing. This would be a real economic loss to the province.

How can the B.C. government maintain its leadership position on carbon pricing, continue reducing GHG emissions, and also protect the considerable economic value that comes from its emissions-intensive sectors? The answer is actually pretty straightforward, but it takes a while to get your head around it.

A carbon tax reduces GHG emissions because households and businesses are required to pay anytime they emit greenhouse gases, and so they are led to find less-emitting ways of doing whatever they do. Especially over time, households switch to smaller or more fuel-efficient or electric vehicles, and they switch their consumption toward products that have less carbon embedded in their supply chains.

On the business side, firms develop production processes that are less dependent on fossil fuels. Mining and refining firms develop less-emitting energy systems, compressors are powered by electricity rather than natural gas, and transportation schedules are re-worked to save on fuel.

For policymakers, the trick on the business side is to make sure that firms always face this powerful incentive to reduce GHG emissions but don't at the same time have the incentive to re-locate their businesses outside the province. The way to do this is to make sure that some small fraction of the province's carbon-tax revenues are given back to those emissions-intensive firms, on the condition that they remain active in the province. This is exactly what the B.C. government did on a transitional basis for the cement sector in its 2015 budget, and it was a sensible thing to do.

This combination of an economy-wide carbon tax and sector-specific cash transfers appears to many people as a pointless policy. But government needs two different tools to solve two different problems. The carbon tax is the ideal tool to reduce GHG emissions, across the entire economy. The cash transfer is the ideal tool for keeping emissions-intensive businesses in the province, generating income and employment.

Seven months ago, Alberta's Premier Rachel Notley stood on a stage, surrounded by environmentalists and representatives from the emissions-intensive oil sands, and announced their new carbon-pricing policy—based precisely on the idea of a tax-and-transfer combination. It was the way to get all sides together, and it was quite a political moment.

Christy Clark should see a real opportunity before her. She can announce increases in the carbon tax, emphasize the benefits that come from lower income taxes and lower emissions, and explain how she will use some of the revenue to protect the province's most emissions-intensive sectors. If she does, she will bring environmental and business interests together on her own stage—and British Columbia's position as a climate leader will be secure.

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