



15 August 2007

Attention: Elizabeth Kingston
Clerk of the Standing Committee on Finance
by email: fina@parl.gc.ca

Re: “The tax system the country needs for a prosperous future”

Dear Ms. Kingston,

This is the submission of the British Columbia Sustainable Energy Association (“BCSEA”) to the Standing Committee on Finance, addressing the theme and the specific questions of the Finance Committee document entitled *The tax system the country needs for a prosperous future*.

Summary

For the foreseeable future, Canada – and the rest of the world – will be radically affected by global climate change. To optimize our well-being and prosperity in this context, Canada will need to undertake urgent efforts to reduce its own greenhouse gas emissions and co-operate with other countries on joint action to reduce global emissions. Given the likely extent of climate change and its effects, addressing this issue should arguably be the Canada’s first policy priority.

Taxation has considerable power to stimulate or discourage behaviours. Canada’s tax system should be redesigned to give maximum support to reducing greenhouse gas emissions and to supporting the development of energy efficiency and non-GHG-emitting energy alternatives.

Canada should implement a carbon tax on fuels that is visible to consumers. The level of the tax should be such that it will work with other policy measures to reduce greenhouse gas emissions, rather than being relied on to achieve reductions by price signals alone. Other measures such as capital depreciation allowances, the GST and Harmonized Sales Taxes should likewise be deployed to discourage activities that cause greenhouse gas emissions and encourage alternatives.

Corporate and individual tax rates should be designed with a view to reducing greenhouse gas emissions and promoting conservation and alternative energies. Interjurisdictional competition should be a low priority in tax design, below greenhouse gas reduction.

Carbon tax

A carbon tax is meant to correct a negative externality. By putting a price on CO₂ emissions from burning fossil fuels, it causes people to seek to reduce their emissions. It also sends a clear social and political sign, and shows political leadership. Around the world, in response to the urgent problem of climate change, there is increasing support a carbon tax as an economic mechanism to reflect the harm of carbon dioxide emissions.

Norway, Finland, Holland, Denmark, Austria, Germany and Italy have all introduced carbon taxes. The 25-member EU is supporting a carbon tax of \$13/tonne, increasing to \$33 for 2008-12. Norway's carbon tax (\$50/tonne) caused Statoil to sequester the CO₂ emissions from its Sleipner offshore gas field, since it was cheaper than paying the tax. The Danish Ministry of Finance has estimated that their \$20 tax led to a 4.6% reduction in CO₂ emissions.¹

Sweden introduced its carbon tax in 1991 at 0.25 SEK per kg (\$40/tonne), rising in 1997 to 0.36 SEK (\$57/tonne). Industry is charged at a 50% rate, and biofuels are exempt. Commercial horticulture, mining, manufacturing and pulp and paper are exempt for competitive reasons. When it was introduced, Sweden's energy taxes (among the highest in Europe) were cut by 50% to compensate. Sweden's Ministry of Environment estimated that CO₂ emissions in 1995 were 15% lower than if it and other energy taxes had not been introduced, and that CO₂ emissions would be 20-25% lower by 2000.² For a discussion of carbon taxes from a US perspective, see www.carbontax.org.

A carbon tax should be implemented in Canada as a retail carbon sales tax on all fuels, based on their carbon content, as part of a wider package of climate-related fiscal measures. The price could be based on a variety of factors, including but not limited to the market price of carbon or an estimate of the harm of climate change (The UK's Stern Review estimated the future cost of climate change at \$100 per tonne). However, the tax should be designed to give a broad-based, visible signal to society and to work in concert with other greenhouse gas reduction measures, rather than being relied on for its economic effects alone. The BCSEA believes that the perceived equity of a broad-based carbon tax and the perceived political leadership it implies will in themselves have significant positive effects.

The tax should be implemented as a net-neutral measure, with GST or income taxes being reduced to offset it. Alternatively, a tax rebate could be offered that is linked to consumer efficiency upgrade programs such as home upgrades. This would make the benefits of the tax visible to those who paid it, making it more acceptable. As well, the measure should be designed to avoid undue impacts on low-income people.

Taxi drivers, truckers and others whose work requires substantial fuel use should be required to pass on the carbon costs to end users in the same way that GST costs are currently passed on.

The tax should be applied to all aviation fuel, and accordingly, Canada should revisit any

¹ *A Review of Carbon and Energy Taxes in EU*: www.tinyurl.com/2ve2jm.

² *Can eco-taxation be effective in reducing carbon emissions?* www.colby.edu/personal/t/thtieten/eco-taxation.htm.
See also *Economic Instruments in Practice 1: Carbon Tax in Sweden* www.oecd.org/dataoecd/25/0/2108273.pdf

international agreements to the contrary.

The tax should be in addition to a cap-and-trade system for large final emitters. There is no inherent contradiction to employing both. Detailed design of the measures should be used to address any unduly burdensome effects.

Taxes on other greenhouse gases

Other greenhouse gases, notably methane, nitrous oxide and fluorine-containing gases should also be taxed. The general principles would be the same as for a carbon tax, but the specific designs would vary depending on specific circumstances.

Other taxation measures

Capital depreciation allowances, currently used to promote fossil fuel developments, should be removed from fossil fuels and redeployed to alternatives: energy efficiency and renewable energies.

GST and harmonized sales tax exemptions should be rebated on activities and products that increase energy conservation and renewable energy development.

Responses to specific questions:

1. What criteria do you believe should guide federal decisions about the changes that should be made to taxes, fees and other charges, and about whether they should be broadly based or targeted to a specific group of residents or business sectors?

Priority should be given to changes to taxes, fees and other charges that will contribute to greenhouse gas emissions reductions and the development of alternatives to fossil fuels. A broadly-based carbon tax should be implemented that will give a clear signal to all sectors of Canadian society to reduce fossil fuel use. Tax incentives to fossil fuel industries should be halted. Tax incentives to energy efficiency and renewable energies should be specifically targeted to those energies.

2. Given that corporations provide employment, are owned by individuals and contribute to the economic growth of the nation:

- ***what is the appropriate form and level of corporate taxes, fees and other charges?***
- ***to what extent should federal revenues be derived from corporations rather than from individuals?***
- ***should the federal government ensure that corporate taxation in Canada is competitive with that in other countries, and what consideration should be given to the various levels and types of public goods provided by countries?***

Corporate taxes, fees and other charges should be designed to discourage fossil fuel development and encourage alternatives. Accelerated depreciation should not be allowed for equipment used for fossil fuel exploration and developments, but it should be allowed for demand-side management and renewable energy investments. The first priority in setting the level of the taxes should be the revenue levels required; co-equal should be the need to

ensure the viability of Canadian industry and commerce, and the need to stimulate a shift from a fossil fuel energy system to a non-fossil fuel energy system.

The BCSEA does not take a position on the allocation of taxes between corporations and individuals, except that the need to discourage greenhouse gas emissions and encourage non-fossil fuel energies should be a significant factor in the design, and there is a need to ensure a just transition, in which no sector of society is unfairly impacted.

Levels of corporate taxation will, of practical necessity, have some relationship to levels in other countries. However, Canada's priority should be to achieve domestic objectives and objectives relating to greenhouse gas reductions. Canada should defend its ability to set those priorities by advocating internationally for corporate tax regimes that discourage greenhouse gas emissions and support alternative energies.

3. Given that Canadians contribute to the nation as employees, corporate shareholders, volunteers and community residents:

- ***what is the appropriate form and level of personal taxes, fees and other charges?***
- ***to what extent should federal revenues be derived from individuals directly rather than from corporations?***
- ***should the federal government ensure that personal taxation in Canada is competitive with that in other countries, and what consideration should be given to the various levels and types of public goods provided by countries?***

Individual taxes, fees and other charges should be designed to discourage fossil fuel development and encourage alternatives. A carbon tax should be implemented on fuels, which should probably be at the retail level, so that it can be made readily visible to as many people as possible, as with the GST. The design should address the issue of hardship to low-income people. GST exemptions should be redesigned around encouraging consumer choices that will reduce greenhouse gas emissions. The first priority in setting the level of the taxes should be the revenue levels required; co-equal should be the need to ensure equity, and the need to stimulate a shift from a fossil fuel energy system to a non-fossil fuel energy system.

The BCSEA does not take a position on the allocation of taxes between corporations and individuals, except that the need to discourage greenhouse gas emissions and encourage non-fossil fuel energies should be a significant factor in the design, and the need to ensure a just transition, in which no sector of society is unfairly impacted.

Levels of personal taxation will, of necessity, have some relationship to levels in other countries; however, this should only have a slight impact on policy. As with corporate taxes, a priority should be given to designing them to discourage fossil fuel use and encourage alternatives. Canada should support this by advocating internationally for tax regimes that discourage greenhouse gas emissions and support alternative energies.