
Policy Forum: Editor's Introduction— Carbon Taxation and Related Policy Options

Many Canadians received their introduction to carbon tax policy through the Liberal's ill-fated "Green Shift" program proposed during the 2008 federal election. While the development of federal environmental tax policy since then has been limited, there has been significant activity at the provincial level. Initiatives range from a broadly based carbon tax in British Columbia to sales tax rebates for hybrid vehicles in at least five provinces. This Policy Forum presents three articles that examine some recent developments in carbon taxation and related policy initiatives in Canada.

Environmental policies can have an impact on Canadian businesses in at least three ways. First, environmental taxes and regulations may affect the operating costs faced by firms, with a consequential impact on production and investment decisions. Second, regulation may impose compliance costs on businesses, affecting not only firms' profits but also governments' tax revenues—directly, to the extent that such costs are deductible, and indirectly, as a result of their impact on the costs of production and investment. Third, many environmental policies require firms to maintain an ongoing record of their emissions and to put in place new accounting procedures to track their performance. These policies are already changing the business environment, and further developments seem likely.

The first of the three articles that follow, by Werner Antweiler and Sumeet Gulati, examines British Columbia's environmental tax policies related to transportation. The efficacy of the BC carbon tax is compared with the impact of other initiatives in the province, which include vehicle emissions inspections, a "cash-for-clunkers" program (Scrap-It) for accelerated vehicle retirement, and subsidies for the purchase of hybrid and electric vehicles. Antweiler and Gulati argue that the BC carbon tax is the preferred option, but vehicle inspections and the Scrap-It program have achieved positive results as well. Subsidizing hybrid and electric vehicles is viewed as a poor option, since there appear to have been few incremental purchases in response to the subsidy.

The second article, by Andrew Leach, evaluates Alberta's Specified Gas Emitters Regulation (SGER). This measure applies to large emitters in Alberta, imposing penalties on firms that fail to reduce emissions below a benchmark level of carbon intensity and rewarding firms that outperform the benchmark. The SGER provides several ways for firms to satisfy the benchmark, ranging from the purchase of credits from other firms to the payment of a \$15 "contribution" to the Climate Change and

Emissions Management Fund for each tonne of carbon dioxide emissions. Leach finds that the SGER leads to lower average burdens than a straight carbon tax, but in many cases, it provides marginal incentives similar to those associated with a carbon tax. He notes, however, that there are important differences in the relative impact of these policies on existing and new facilities, and they each reward different means of emissions reduction in different ways.

Taken together, the first two articles bring attention to the difficulties inherent in multifaceted approaches. Because carbon is priced differently through different channels, firms choose economically and environmentally inefficient ways to abate carbon emissions.

The third article, by Nicholas Rivers, studies the impact of a \$30 per tonne carbon tax on income and expenditures across Canadian households. Distributional concerns were paramount in the discussion of the Green Shift plan proposed in 2008 and for the BC carbon tax as well. Rivers provides some new evidence on the distributional impact, finding differences when comparisons are made across expenditure strata instead of income. He also points out that the indexing provisions of most government transfer programs would mitigate a large proportion of the distributional impact of a carbon tax.

This analysis of environmental policy experience in the provinces, combined with work on the potential impact of possible federal policies, can help to advance the development of a menu of workable options by governments at all levels.

Kevin Milligan
Editor