

Carbon Tax Questions & Answers

Q: What is the goal of a carbon tax?

A: The over-riding goal of a carbon tax is to send a price signal through the entire economy. It is a straight-forward, efficient way to help get the prices right. Both a carbon tax and cap and trade systems are viewed as market mechanisms to impact the price of carbon. The carbon tax approach is generally preferred by economists. Cap and trade imposes a significant transactional cost and is very complex to operationalize across the whole economy. The Green Party will use a cap and trade component where it makes sense. A cap and trade system for the coal-fired electricity sector, as an example, makes a lot of sense.

The Canadian Council of Chief Executive Officers has called for government intervention to increase the price of carbon, and references it would support carbon taxes or cap and trade. The C.D. Howe Institute and the National Round Table on the Environment and the Economy have said much the same thing. Both approaches will cause carbon emitting energy to cost more. Cap and trade is essentially a market approach to accomplish the same goal as a carbon tax, in a more complicated and inefficient fashion.

The efficiency and non-discriminatory nature of a carbon tax make it the preferred option of nearly every policy expert and resource economist. The list of carbon tax supporters includes: The Economist magazine, the New York Times, the Los Angeles Times, Dr. Marc Jaccard of Simon Fraser University, Dr. David Boyd from the University of Victoria, national affairs writer Jeffrey Simpson (in a *Hot Air*, a book he co-authored with Marc Jaccard), chief economist of TD Bank Don Drummond, and many others.

It is not a goal of a carbon tax to raise the price of gas so high that people will dramatically change behaviour and drive a lot less. The elasticity of demand for gas is so high that a carbon tax designed to make such a dramatic behaviour change is dollars a litre, not pennies. The goal of raising the price of carbon is to achieve a system-wide change. Large corporations and small business all want to protect the bottom line, therefore energy efficiency improvements and shifts to low carbon technology will be encouraged through a wide range of entrepreneurial efforts.

Q: Some say it will be revenue neutral. Will such a tax raise money?

A: A carbon tax must be revenue neutral. It must not be a tax grab and ideally, it should stimulate the economy where stimulation is most needed – through cuts to income tax and payroll taxes. The Green Party approach proposes taxing carbon at a rate of \$50 per tonne. (Note that as the amount of carbon available to be taxed goes down, which it will, the price per tonne will rise.) The Green Party's carbon tax would apply upstream and downstream in the economy, meaning that tar sands companies would pay for the greenhouse gases emitted from producing crude and consumers would pay more at the pump. A \$50 per tonne carbon tax raises gas prices to consumers by 12 cents per litre and electricity from coal by three cents per kilowatt hour.

The bulk of the tax revenue in this system comes from the larger polluters. At \$50 per tonne, the tax brings in \$40 billion a year to the federal government. This will allow income taxes to be cut. It covers the \$5

billion cost to the federal treasury of allowing income splitting. It allows significant reductions on employer costs for Canada Pension Plan (CPP) and Employment Insurance (EI) benefits, as well as reducing the CPP and EI deductions on every pay cheque. It also allows the elimination of personal income taxes on incomes below low income cut-offs for individuals. It allows increases in low-income supplements for seniors and low-income Canadians. In the Green Party's plan, there are also cushions for farmers and fishers for fuel costs.

The effect of a \$50 per tonne carbon tax was modeled in 2007 for Environment Canada and the report to Environment Minister John Baird was made public through a Green Party Access to Information request. The modeling data compiled by Dr. Marc Jaccard demonstrated that a \$50 per tonne carbon tax, assuming tax reductions elsewhere in the system, had no impact whatsoever on Canada's Gross Domestic Product (GDP). In fact, the modeling showed a marginal improvement in GDP growth, but not enough to claim a positive impact. Nevertheless, there was no evidence of a negative impact. This is consistent with evidence drawn from the many European Union nations with carbon taxes. Research makes it clear that the most productive and competitive economies in Europe are the ones with carbon taxes. Norway, for instance, has had a carbon tax for years, even though it is a major exporter and supplier of North Sea oil.

Q: How will the tax money be used?

A: If a carbon tax is truly revenue neutral, it is used to pay for programs in the federal budget. In the Green Party's plan, some of the funds raised go to a building retrofit program, as there are huge savings and efficiencies to be achieved in making buildings more efficient on measures of heating, lighting and cooling. The turn over time for building stock is so long, that without a major push, energy wasting buildings will be with us for decades. The decisions about how the money is spent and whether it all goes into tax cuts are a matter of policy for any government.

Q: How does a carbon tax affect greenhouse gasses?

A: Sweden has had a carbon tax for over a decade. Its greenhouse gas reductions have been achieved even with economic success and protection for low income citizens. The Swedish Minister of the Environment recently estimated that without the carbon tax, Sweden's greenhouse gas emissions would be 20 per cent higher than they now are. The carbon tax has also succeeded in Norway, Denmark and other countries.

Monetizing carbon is the goal. It is difficult to value what cannot be measured, and there is less of an incentive to conserve when fossil fuels are under-priced. What Bobby Kennedy Jr. likes to say is that pollution is a sign of market failure. Where the economy has left pollution as an externality, business has no incentive to eliminate it. When it is a cost that registers on the balance sheet, energy from wind, solar, tidal, district energy, co-generation and major efficiency efforts all begin to appear more attractive.

The key to a carbon tax is tax shifting. It is the core message of ecological fiscal reform that government should cease taxing those things that are desirable in society – like income and jobs – and shift taxes on to those things that are undesirable – like pollution and global warming.