

# HOW *to* ADOPT *a* WINNING CARBON PRICE

Top Ten Takeaways from Interviews with the  
Architects of British Columbia's Carbon Tax

# Sources

All of our interviews were conducted confidentially, and we assured interviewees that their specific comments would not be attributed to them by name. However, some participants opted to put some or all of their comments “on the record.” Twelve of our interviews were conducted by phone and one by email.

## Policy Developers

**Gordon Campbell\***

Premier, Province of British Columbia

**Tim Lesiuk**

British Columbia Climate Action Secretariat

**Carole Taylor\***

Finance Minister, Province of British Columbia

**Chris Trumpy\***

Deputy Minister, Ministry of Finance,  
Province of British Columbia

**Graham Whitmarsh\***

Head, Climate Action Secretariat,  
Province of British Columbia

## Expert Commentators

**Ross Beaty**

Executive Chairman, Alterra Power

**Christy Clark**

Current Premier of British Columbia  
(interview conducted by email)

**Spencer Chandra Hebert**

Current New Democratic Party Member of the Legislative  
Assembly of British Columbia and Official Opposition  
Environment Spokesperson

**Jock Finlayson**

Executive Vice President and Chief Policy Officer,  
Business Council of British Columbia

**Pamela Goldsmith-Jones\***

Mayor, District of West Vancouver

**Kathryn Harrison**

Professor of Political Science,  
University of British Columbia

**Matt Horne**

Associate Director (British Columbia), Pembina Institute

**Mary Polak**

Current Liberal Party Member of the Legislative Assembly  
of British Columbia and Minister of the Environment,  
Province of British Columbia

\*Title as of 2008, when the carbon tax was introduced.

# Introduction

British Columbia's carbon tax was North America's first economy-wide carbon pricing policy when it was introduced in 2008. It remains the continent's strongest carbon-pricing initiative today, and has been recognized the world over for the effectiveness of its design. Six years after the policy took effect, the empirical evidence of its success is accumulating. (For more information about the policy's design and track record, please see "A Carbon Tax Primer," on page 4.)

Over the fall of 2014, Clean Energy Canada conducted a series of confidential, candid interviews with the policy's architects, and with expert observers who watched it play out. We spoke to senior officials and elected representatives working in British Columbia's government at the time, as well as to experts from the business, academic, municipal government, and environmental communities—a baker's dozen of people intimately involved in shaping, or responding to, this groundbreaking policy.

The interviews focused on a few key questions that dug into the politics of adopting carbon taxes:

- What conditions allowed for the introduction of a carbon tax in British Columbia?
- What kind of response might governments expect if they introduce this kind of policy, and how can governments ensure that response is as favourable as possible?
- What are the key policy-design decisions that governments would need to make? What are pros and cons of those choices?

We've distilled our findings from these interviews down to 10 key takeaways. Although they are, of course, focused on carbon taxes, many of them are also relevant to governments considering a cap and trade approach to carbon pricing.

The key findings from our interviews are summarized on the next page and described in more detail in the pages that follow. The questions posed to interviewees are included in Appendix A.

# Top 10 Takeaways

Considering a carbon price? Here's what you really need to know


1. A carbon tax and a thriving economy can co-exist.

2. You need strong political leadership to get a carbon tax in place. (Public concern about climate disruption helps, too.)

3. Keep it simple: design a policy that's easy to administer thanks to broad coverage and minimal exemptions.

4. Start with a low price.

5. Commit from day one to a schedule of price increases, and stick with it.



6. Revenue neutrality helps address private-sector concerns and makes the policy more durable.

7. On the other hand, revenue neutrality doesn't get you very far with voters.

8. A carbon tax can't do everything; it needs to be just one component of a full suite of climate policies.

9. Prepare for motivated, vocal – and not necessarily fact-based – opposition. You'll need active, engaged supporters and targeted communications strategies to counter the critics.

10. Expect a cleaner environment, an enhanced reputation, and a thriving clean technology sector.

# A Carbon Tax Primer

The mechanics and impacts of British Columbia's carbon tax

In 2008, the government of British Columbia announced a bold new climate policy: North America's first revenue-neutral tax on carbon pollution.

How does British Columbia look today, nearly seven years after that announcement? The provincial economy enjoys stronger economic performance than the Canadian average.<sup>1</sup> Carbon pollution is down,<sup>2</sup> and so is per capita fuel consumption.<sup>3</sup> The carbon tax now funds more than a billion dollars a year in other tax cuts,<sup>4</sup> resulting in one of Canada's lowest corporate tax rates.<sup>5</sup> Meanwhile, the party that introduced the tax won both of the two elections held since the policy took effect.

How does it work?

- The tax started at \$10<sup>6</sup> per metric tonne of carbon dioxide-equivalent in 2008 and ramped up by \$5 each year to reach \$30 a tonne by 2012. In 2008, that meant a \$0.02 / litre (\$0.09 / gallon) increase in the price of gasoline.<sup>7</sup> By 2012, the tax increased gas prices by \$0.07 per litre (\$0.25 / gallon).
- The tax covers nearly all emissions from burning fossil fuels in B.C. — more than 70 percent of the province's carbon pollution.<sup>8</sup>
- The tax does not raise new revenues for the province. Instead, the government mandated that every dollar of carbon tax revenue collected must be returned to British Columbia's taxpayers and businesses through tax cuts. (In practice, British Columbia's tax cuts have actually more than cancelled out the revenues collected from the carbon tax, making it slightly "revenue negative" for the government.)
- British Columbia's government built a targeted tax credit for low-income citizens into the policy design, in order to shield them from potential adverse impacts of the carbon tax.

While the province has made some adjustments to its carbon tax over the years, each of the core policy elements outlined here remains in place today.

Who pays, and how?

British Columbia decided to piggyback the administration of the carbon tax on top of an existing fuel tax paid by fuel wholesalers (fuel importers or domestic producers). Wholesalers pass the tax on to retailers, who pass it on to consumers.<sup>9</sup> This approach means that the province only collects the tax directly from a limited number of companies. Regular taxpayers and most businesses don't have any new forms to fill out.

What does it cover?

The government levies the tax based on the carbon content of fossil fuels (coal, oil and natural gas) burned in British Columbia. The policy covers nearly three-quarters of the province's total carbon pollution.

Some emission sources are not covered by the tax. These include:

- Emissions that will occur outside British Columbia: for example, emissions from inter-jurisdictional aviation and shipping or from fuels exported from the province.
- Emissions that were deemed too difficult to measure accurately, such as methane emissions from landfills.
- Non-combustion emissions, like those that result from chemical reactions in certain industrial processes.

## How does revenue neutrality work?

- In 2012, after five years of scheduled increases, the tax reached a rate of \$30 a tonne.
- At that tax rate, British Columbia's government collects more than a billion dollars a year in carbon taxes.
- Every year, the government estimates its expected carbon tax revenues for the next three years, and enacts an equal or greater package of tax cuts.
- In fact, by law, the finance minister is required to take a 15 percent pay cut if the tax is not revenue-neutral for the government.<sup>10</sup>

Some tax cuts have been very broad — reductions in the large and small business tax rates, reductions in income tax rates — while others are more targeted or directly linked to climate policy. Some examples of the latter tax cuts include:

- A climate action tax credit for low-income British Columbians.
- An annual \$200 benefit for northern and rural homeowners.
- Training tax credits for individuals and businesses.
- Tax credits for the digital media sector and the province's film sector.
- Tax credits for children's fitness and arts programs.<sup>11</sup>

## What was the public response?

- Polling shows that a majority of British Columbians (54 percent) supported the tax when it was introduced, and a majority (58 percent) continue to support it today.
- In 2012, public support for the tax reached a high of 64 percent popular support just as the tax reached its maximum level.<sup>12</sup>



- 1 <http://www.sustainableprosperity.ca/dl1026>
- 2 <http://www2.gov.bc.ca/gov/DownloadAsset?assetId=A3C8EBF5DBAC4EAB8CE5CA2A238F83C7&filename=2014-progress-to-targets.pdf>
- 3 <http://www.sustainableprosperity.ca/dl1026&display>
- 4 [http://bcbudget.gov.bc.ca/2014/bfp/2014\\_Budget\\_Fiscal\\_Plan.pdf](http://bcbudget.gov.bc.ca/2014/bfp/2014_Budget_Fiscal_Plan.pdf)
- 5 <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/rts-eng.html>
- 6 All currency figures are in Canadian dollars.
- 7 [http://www.bcbudget.gov.bc.ca/2008/bfp/2008\\_Budget\\_Fiscal\\_Plan.pdf](http://www.bcbudget.gov.bc.ca/2008/bfp/2008_Budget_Fiscal_Plan.pdf)
- 8 <http://www.fin.gov.bc.ca/tbs/tp/climate/A4.htm> and <http://www.fin.gov.bc.ca/tbs/tp/climate/A6.htm>
- 9 [www.bcbudget.gov.bc.ca/2008/bfp/2008\\_Budget\\_Fiscal\\_Plan.pdf](http://www.bcbudget.gov.bc.ca/2008/bfp/2008_Budget_Fiscal_Plan.pdf)
- 10 [http://www.bclaws.ca/Recon/document/ID/freeside/00\\_08040\\_01#section5](http://www.bclaws.ca/Recon/document/ID/freeside/00_08040_01#section5)
- 11 [http://www.bcbudget.gov.bc.ca/2012/bfp/2012\\_Budget\\_Fiscal\\_Plan.pdf](http://www.bcbudget.gov.bc.ca/2012/bfp/2012_Budget_Fiscal_Plan.pdf), [http://www.bcbudget.gov.bc.ca/2013/bfp/2013\\_Budget\\_Fiscal\\_Plan.pdf](http://www.bcbudget.gov.bc.ca/2013/bfp/2013_Budget_Fiscal_Plan.pdf) and [http://bcbudget.gov.bc.ca/2014/bfp/2014\\_Budget\\_Fiscal\\_Plan.pdf](http://bcbudget.gov.bc.ca/2014/bfp/2014_Budget_Fiscal_Plan.pdf).
- 12 <http://www.environmentalinstitute.org/uploads/news/focus%20canada%202014%20-%20public%20opinion%20on%20climate%20change%20-%20final%20report%20-%20english%20-%20november%2025-2014.pdf>

# 1. A carbon tax and a thriving economy can co-exist.

The empirical evidence,<sup>13</sup> ably tracked by researchers at the University of Ottawa's Sustainable Prosperity think tank, is that British Columbia's economy has slightly out-performed the rest of Canada's since the carbon tax came into effect in 2008.

Our interviewees had exactly the same perspective: to a person, they were confident that the carbon tax has not harmed the province's economy as a whole. Several pointed out that the carbon tax's impact was bound to be modest; on its own, it's just a small part of the broader economic landscape within which the province's businesses operate. Other factors — including currency exchange rates, other tax rates, interest rates, the province's low electricity prices, and the economic performance of the United States — matter far more to a small open economy like British Columbia's than a \$30 per tonne carbon tax.

Some interviewees noted that British Columbia's cuts to corporate income taxes — many of which are paid for with carbon tax revenues — have helped attract businesses to the province.

While our interviewees were confident that the carbon tax has a neutral to modestly positive impact on British Columbia's economy as a whole, many pointed out that the impacts vary from sector to sector. For clean technology or the service sector, the carbon tax shift is often a net positive. For energy-intensive industries, the cost of the carbon tax — reflected in higher prices for fossil fuel inputs — can be higher than the savings they see from British Columbia's corporate tax cuts.



Most participants also agreed on another economic conclusion: only one sub-sector of British Columbia's economy lost market share as a result of the carbon tax. The province's cement sector, which consists of two companies,<sup>14</sup> uses a huge amount of fossil fuel energy to produce its products. The sector also competes with U.S. businesses, just over the border, that don't yet pay a price for carbon pollution. The cement sector has proposed policy solutions to mitigate the impact of the tax<sup>15</sup>; to date, the province has yet to modify its tax policy as the cement sector has recommended.

Even in this specific case, however, two interviewees noted that the tax is just one of many factors influencing the cement sector's performance.

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<sup>13</sup> <http://www.sustainableprosperity.ca/dl1026&display>

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<sup>14</sup> <http://www.cement.ca/en/News-Releases/Cement-Industry-Extremely-Disappointed-by-B-C-Government-s-Lack-of-Action-to-Address-Carbon-Tax-Issues-Putting-Cement-Jobs-at-Risk.html>

<sup>15</sup> <http://www.cement.ca/en/Newsroom/CAC-President-and-CEO-address-es-BC-Select-Standing-Committee-on-Finance-and-Government.html>



## In their own words

“The overall impact of this, given where we’re at today, has been modest. I would not want to imply that the carbon tax has had a major impact on the business environment in B.C. one way or the other. Relative to interest rates, exchange rates, the U.S. economy – these are far more significant. We’re a small open economy, so most of what impacts B.C. as a small open economy is external.” – Interviewee

“It’s been a positive overall for the economy, because we have such good corporate tax rates here – that’s a positive for business. In the ’90s, we had the highest taxes in the country and businesses left. Now we have the lowest tax rates and that’s good for B.C.’s economy.” – Carole Taylor

“The numbers speak for themselves. In the last five or six years, B.C. has outgrown most of the rest of Canada, and has had significantly less emissions than the rest of Canada. The tax has not impeded B.C.’s ability to grow relative to the rest of Canada.” – Ross Beaty

“A revenue neutral carbon tax is a triple win. The first win is the economy, because it actually rationalizes the tax system for the economy. Second, it creates a whole set of economic opportunities for small and large businesses. And third, it is a political win. I didn’t think we would have won in 2009 if we didn’t have it in place.” – Interviewee

## 2. You need strong political leadership to get a carbon tax in place. (Public concern about climate disruption helps, too.)



We started each of our interviews with the same question: “What motivated the government to introduce the carbon tax?” We got the same answer again and again: this policy came straight from the top. It was personal leadership from British Columbia’s then-premier that brought the tax into being.

In 2007, Gordon Campbell, the province’s premier and the leader of British Columbia’s centre-right Liberal party, announced that tackling climate change would be a top priority for his government. That year, the province adopted a Climate Action Plan consisting of a series of emission-reduction targets and a suite of policy measures. Along with finance minister Carole Taylor, Campbell went on to make climate change the theme of British Columbia’s 2008 budget — with the carbon tax as its centrepiece. (The pages outlining the carbon tax proposal were even printed on green paper.)

Moreover, numerous interviewees told us that the key design elements of the carbon tax came from the premier himself, including the decision to make it revenue-neutral for the government. Officials developing the policy surveyed carbon pricing around the globe, and were well aware that their proposal was world-leading.

Political interviewees confirmed that the Liberal party caucus was not pushing for a carbon tax policy. Nor was the business community, although business leaders provided suggestions about the kind of carbon tax they could live with in the event that the province did adopt one.

Relative to the rest of Canada, the public in British Columbia placed a high priority on environmental stewardship, and parties across the political spectrum supported action to reduce carbon pollution. In the run-up to the 2008 budget, independent policy experts in the province were actively supporting carbon pricing via op-eds and other public forums. Premier Campbell was in close touch with Governor Schwarzenegger of California to coordinate climate action, and several of British Columbia’s peer jurisdictions looked poised to take climate change more seriously within their own borders. British Columbia’s economy was strong in early 2008, and the governing party held a majority of seats in the legislature.

All those conditions helped give the province licence to act. But the story is really very simple: British Columbia adopted a cutting-edge climate policy because of one politician’s personal convictions.

“We all knew it was a good idea – but the commitment came from the premier.” – Interviewee

“It was very much a personal decision, personal commitment by the then-premier. He drove the whole thing.” – Interviewee

“The premier launched a very significant, quite a personal initiative to take action on climate.” – Interviewee

“I wouldn’t pretend that everybody in the party thought it was a good idea. But there was strong leadership from the premier and myself – so they didn’t love it, but they accepted it.” – Carole Taylor

“The government wanted a serious climate change plan. And in considering all parts of that, they came to the realization that putting a price on carbon was going to be necessary if they were going to be serious about achieving their emission reduction targets.” – Interviewee

### 3. Keep it simple: design a policy that's easy to administer thanks to broad coverage and minimal exemptions.

British Columbia officials wanted to move quickly on the carbon tax proposal, and they did. The finance minister announced the carbon tax in February 2008 and the government started collecting it in July of that year, fewer than six months later.

A simple design helps account for that speedy implementation.

Administratively, the tax was designed to piggyback on an existing tax levied on British Columbia's fuel wholesalers, a relatively small number of companies — so only a small percentage of businesses (and no citizens) had any new paperwork to complete.

The tax applies to all emissions from burning fossil fuels in British Columbia that could be readily measured. As a result, nearly three-quarters of the province's emissions are covered — including both business and household emissions. (Emissions generated by non-combustion industrial processes are not covered, which allowed some critics of the tax to say that it exempted big business.)

The simplicity of British Columbia's design was widely praised by our interviewees, who used terms like “very clean,” “straightforward,” and “streamlined” to describe it. Several noted that the comprehensive design also met one of the business community's key “asks,” which was for an approach that covered household emissions along with those from business operations. Another said that businesses viewed a carbon tax as being less cumbersome than regulations, which helped temper the private sector's response to the tax when it was announced.

Former finance minister Carole Taylor told us that it took a lot of political energy to say “no” to suggestions of exemptions, loopholes, and special treatment. Instead, in areas where the government was concerned about the potential for a negative impact from the tax, policymakers designing the initial policy chose to use carbon pricing revenues to compensate for those impacts — leaving the tax structure, and the incentive it creates to reduce emissions, unchanged. For example, the government included a tax credit for low-income citizens — funded from carbon tax revenues — right from the first year of the policy, and has maintained that credit in each subsequent year.

After the tax took effect, the government introduced further targeted tax benefits in response to critiques of the policy. For example, the province's northern and rural homeowners receive a tax benefit of up to \$200 each year, in response to the widespread perception that the tax was more expensive for car-dependent rural residents than it was for urbanites with access to public transit. The government also offered concessions to the agriculture sector as of 2012.

While some of our interviewees felt that these later changes were unavoidable in the face of strong opposition to the tax from those quarters, others described them as unfortunate deviations from the strong structure the government established in 2008. Some interviewees also noted a lack of evidence that these targeted groups were actually experiencing hardship as a result of the carbon tax. (Recent academic research lends weight to that perspective; for example, a 2014 paper found little evidence that the agriculture sector experiences hardship as a result of British Columbia's carbon tax.)<sup>16</sup>



<sup>16</sup> [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2310566](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2310566)

“I was personally excited about it, because I’m kind of a purist. It was nice to do something that was quite straightforward and very clean.”

– Interviewee

“The coverage of the tax is pretty good, given B.C.’s emissions profile – over 70 percent of the province’s emissions come from burning fossil fuels, so a carbon tax on combustion had really great coverage. It was really important to cover individuals and businesses in one go, and to make it equitable in price across all those groups. Piggybacking on the fuel tax also streamlined implementation.” – Interviewee

“I did feel very strongly that we couldn’t make exceptions. If we made one, we’d make all kinds of them – and at that point your model falls apart. So what took a lot of political energy within government was to keep saying ‘no exceptions.’” – Carole Taylor

“Economically the case for those exemptions [to greenhouse growers, in 2012] was very weak. The government’s own working group found that the case was weak and that the sector had opportunities to reduce, so it was poor public policy.” – Matt Horne

## 4. Start with a low price.

British Columbia's carbon tax started at a rate of \$10 per tonne, which increased the price of gasoline by \$0.02 / litre (or \$0.09 / gallon). With hindsight, our interviewees felt strongly that starting with a relatively low price was a crucial decision that helped make the tax publicly acceptable.

A couple of interviewees noted that \$10 per tonne was chosen because it was low enough to be non-threatening: carbon pricing systems elsewhere in the world were already charging similar prices, and drivers are used to far larger variations in the price at the pump.

The low introductory price also served to blunt some attacks by critics. The policy's more vocal opponents could claim the tax would be catastrophic for British Columbia, but voters looking around in 2008 saw little evidence of catastrophe. As former finance minister Carole Taylor put it, the low initial rate allowed the province to "get the principle accepted" without raising prices to the point that could nurture widespread public opposition.

"Ten dollars was a number that was not scary at the time. The European Union had a price higher than \$10 in its cap and trade system. We were having conversations with other jurisdictions about prices, and \$10 to \$15 was reasonable."

– Interviewee

"Part of the discussion of \$10 was wanting to see just 2 to 3 cents increase on a litre of gas – that drove the \$10." – Interviewee

"In the first year, not much had happened. People had seen a small increase in gas prices, which gets lost in the price fluctuation, and the government was still committed." – Interviewee

## 5. Commit from day one to a schedule of price increases, and stick with it.

British Columbia paired its low starting tax level with a schedule of annual increases to the tax rate. The government committed to \$5 per tonne hikes in the rate each year until 2012, gradually moving it up from \$10 per tonne in 2008 to \$30 per tonne in 2012.

As discussed above, our interviewees believe that starting at \$10 per tonne helped the public accept the tax. In the business community, however, several interviewees told us it was the signal of a rising tax rate that mattered more, because businesses must frequently make decisions about investments that look a decade or more into the future.

Most interviewees praised the government's decision to set a schedule of predictable rate increases right from the get-go. This early and clear signal made the annual jump less controversial, because it was expected. For several years after 2008, the government had no carbon tax decisions to make — other than the enjoyable task of deciding where to direct its growing tax revenues. As one interviewee noted, this meant that the tax kept growing even in years when the government was focused on priorities other than climate action.

The gradual increase in the carbon price allowed British Columbia to move from a “non-threatening” carbon tax to a more stringent one with less pushback than it would have faced had it proposed a sudden, and unexpected, jump in tax rates. The ramp-up was also important on policy grounds, as it gave citizens and businesses the time to make investments that would cut their carbon pollution (and thus save on future carbon tax costs).

One interviewee noted that businesses were far more likely to make low-carbon investments because it was clear to them that tax rates were only headed in one direction: up. And a few interviewees recalled that when the tax came into effect, there was no expectation that it would plateau in 2012; instead, many expected it to keep growing — which made it an even more potent tool for curbing carbon pollution.

Several of our interviewees said that because it was so effective, they wished the ramp-up had been longer — perhaps via a ten-year schedule of increases, out to 2018, rather than a schedule that ended in 2012.

“The most important design element was the ramp in rates. It started at a low rate and ended at a relatively low rate (which is plateaued for now). But just the fact that there was a schedule of increases opened up the possibility of more significant influence: we saw reactions that went beyond what you would do at \$30 per tonne because people were thinking 10, 15 years ahead.”

– Matt Horne

“After it made it through the first year and first election, people just didn't talk about it anymore. Because the increase was written in legislation, it wasn't a constant public debate.” – Carole Taylor

“We should have said 10 years. People could plan for 10 and build for 10 but they are marginal when it goes up only as far as it did... We need to continue to give people reduced income tax and increase choice.” – Interviewee

## 6. Revenue neutrality helps address private-sector concerns and makes the policy more durable.

Whenever governments propose carbon-pricing policies, the question of what to do with the revenues quickly becomes very heated. British Columbia is no exception: the government's approach to using its carbon pricing revenues was hotly debated in 2008, and continues to be a divisive question today.

By law, British Columbia's carbon tax must be revenue-neutral for the government — that is, every dollar the government takes in from charging a carbon tax must be offset by a dollar of rebates or reductions in other taxes. Each year, the province's annual budget lays out the expected carbon tax revenues in one column and an equal or greater package of parallel tax reductions alongside it.

Though most of our interviewees supported the revenue-neutral approach, this was not a unanimous perspective. We'll discuss some of the downsides of revenue neutrality in the next section. But British Columbia's experience shows that revenue neutrality has two very important upsides: it helps bring the business community onside (or at least, it keeps that community from going too far offside), and it makes the tax difficult to remove once it's in effect.

At the time that the government was designing its policy, the business community told officials that, in the event the province did adopt a carbon tax, they wanted it to be revenue neutral. British Columbia's private sector gave a range of reasons for taking that position: Some businesses saw the prospect of direct benefit for their own balance sheets, while others didn't want to see an increase in the size of government. By meeting the business community's design parameters, the government reduced potential private sector opposition significantly. As one interviewee put it, revenue neutrality provided a "shield" against carbon tax opponents, and gave businesses "some peace of mind" about their overall tax obligation.

In the end, while relatively few British Columbia businesses loved the carbon tax, many decided not to oppose it actively, and that helped pave the way for its survival.

The other main benefit of revenue neutrality became more evident over time: once implemented, a carbon tax is difficult to remove. (As one interviewee said, it's tough to "unmake the omelette.") At \$30 per tonne, British Columbia's government takes in more than a billion



		17,000	137,000	13,5
		75,000	140,000	13,5
		49,778	89,678	13,5
		78,551	117,451	13,5
		13,737	74,637	13,5
		79,800	70,400	13,5
		43,115	84,015	13,5
		43,991	104,891	13,5

dollars in carbon taxes every year — a significant portion of the government's revenues, which totalled just under \$44 billion in 2014. Thanks to the commitment to revenue neutrality, British Columbia's carbon tax revenues support more than a billion dollars a year in tax cuts, ranging from reductions to the general corporate and personal tax rates to niche tax credits for children's arts and fitness programs. Any premier who wants to get rid of the carbon tax has three choices, none of them appealing:

- Reverse those tax cuts (or, as the premier's political opponents would surely put it, "raise taxes")
- Keep the tax cuts, but find a billion dollars of savings somewhere else in the budget, or
- Run a deficit.

As one interviewee explained, revenue neutrality changed the political debate: anyone who wanted to campaign against the carbon tax had to explain "how they would make it up to businesses, so it upped the ante" — and thus effectively "put a lock" on the carbon tax. Political scientist Kathryn Harrison put it this way: "We underestimate the political importance of revenue neutrality at our peril."

Earlier, we said that British Columbia's carbon tax is largely the result of one politician's leadership. Revenue neutrality — paired with the power of the executive in Canada's parliamentary system of government — means that it *only* takes one visionary leader to establish an enduring carbon price.



“The tax makes up \$1.2 billion of a \$40 billion budget, so getting rid of it is a significant decision. If you were just spending the revenues, you could choose to spend less. But revenue neutrality forces you to not take it out unless you want to cut other taxes.” – Interviewee

“The revenue neutrality structure was obviously a critical feature that helped to temper some of the opposition that otherwise would have been forthcoming from the business community. In the business context, the revenue neutrality was one of the most important features – if not the most important feature.” – Interviewee

“Because it was so tightly tied to tax relief, it would have been quite astonishing for a new premier to come in and take that away.” – Carole Taylor

“Revenue neutrality was a big selling point inside government. The government didn’t want to add new taxes, and the ability to cut taxes was a huge deal, because it allowed for announcements of tax cuts every time the tax went up. We dropped corporate taxes below the international standard. That was a huge deal, that we took corporate taxes that low.” – Interviewee

“Revenue neutrality is an important promise that was made to B.C. taxpayers with the introduction of this tax. Reducing taxes on things like income, and placing them on pollution instead, is good policy that makes good sense.” – Christy Clark

## 7. On the other hand, revenue neutrality doesn't get you very far with voters.

Instead of growing the government's revenues, the goal of British Columbia's carbon tax is to change consumer and business decisions in a direction that reduces carbon pollution: the tax makes polluting choices more expensive and clean choices more affordable. This makes British Columbia's carbon tax a very different kind of policy tool.

Unsurprisingly, though, many voters thought about this tax as being like the other taxes they pay every day. Because most taxes are primarily intended to raise revenues, a tax explicitly designed *not* to raise revenues was often mystifying for voters. Many simply didn't believe the government would keep its word.

The government anticipated that critique, and took steps to pre-empt it. These included making revenue neutrality a legal requirement. (The law even specifies that the finance minister cannot receive her or his full salary if the tax is not revenue neutral in a given year.) The government also publishes an annual accounting of carbon tax revenues and offsetting tax cuts, and provided a disproportionately large share of the initial set of tax cuts to households rather than businesses.<sup>17</sup> But by and large, these measures appear to have failed to convince skeptical members of the public that "revenue neutral" is real.

As used by elected officials, the term "revenue neutral" meant "revenue neutral to the government." But many voters interpreted it to mean "revenue neutral for me, personally." That was never the intention: instead, the tax is designed to increase costs on families with higher carbon footprints (for example, households with several large vehicles) and reduce costs for families with lower household emissions. Similarly, some businesses were upset that the tax would not be revenue neutral for their own operations. One interviewee noted that even elected members of the government did not always appear to be certain about what "revenue neutral" meant.

The Pembina Institute's Matt Horne noted that citizens asked questions like "Why charge a tax in the first place

if you're just going to give it back to me?" or "What's the point of paying a pollution tax if it's not invested in cutting pollution?"

Environment Minister Mary Polak — a politician who has campaigned on the carbon tax — said that in contrast to a rebate cheque, a tax saving often isn't memorable enough to convince voters that they will benefit: "If you tell someone he's going to save \$100 on his income taxes, he probably doesn't remember how much he paid last year anyway."

And because the tax doesn't actually generate new revenues for the province, it did not give the government new opportunities for visible new spending programs. As Member of the Legislative Assembly Spencer Chandra Hebert noted, voters would say things like "I paid all this tax, but where's the benefit?"

Despite these challenges, the majority of our interviewees considered the government's commitment to revenue neutrality to be an indispensable element of getting the tax off the ground in the first place. However, a few interviewees noted that the politics of maintaining and growing a carbon tax are very different from the politics of establishing one from scratch.

With the tax now entrenched as "part of the economic fabric of the province," as one interviewee put it, several interviewees suggested that the province could now consider other uses for the carbon tax revenues. Among our interviewees, investments in public transit were the most popular alternative to tax cuts as a potential use of future carbon pricing dollars.

Jurisdictions considering a carbon tax designed like British Columbia's might also want to take this advice from Professor Kathryn Harrison to heart: "You need to find a better way to say revenue neutral."

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<sup>17</sup> "Disproportionate" in that the province directed a greater share of the rebates to consumers than their share of the incidence of the tax (in other words, businesses paid a higher share of the tax than they received of the rebates). However, as some interviewees noted, some businesses had the ability to pass the tax on to consumers, so the initial allocation of rebates may actually align more closely to the true incidence of the tax than it appears at first blush.

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<sup>18</sup> The carbon tax is levied on the greenhouse gas emissions from burning fossil fuels in British Columbia, which account for nearly three-quarters of the province's emissions. It does not cover emissions generated from chemical processes in the industrial sector that do not involve combustion, which has generated critiques that heavy industry is being let off the hook.



“The tax is revenue neutral at a aggregate, economy-wide level. For any individual household or business, they either benefit or lose. Some of our members would be pounding the table saying ‘it’s not revenue neutral to us!’ And we would have to explain that it’s economy-wide.” – Interviewee

“The specific tax cuts probably mattered to the business community. For individuals, it was a total bust – people didn’t believe they were getting money back.” – Kathryn Harrison

“I think revenue neutral was appropriate at first, to get confidence amongst the detractors. That’s step one. Step two is that we have to keep going down that path, towards real sustainability.”

– Pamela Goldsmith-Jones

“Now that it’s established and has been around for a time, it’s absolutely legitimate to talk about whether more of it should be used for transit, or for other things. That wouldn’t have worked at first.” – Carole Taylor

“The government could have really neutralized any of the arguments against the carbon tax if they had also included big polluting companies,<sup>18</sup> and announced a fund of some kind to help communities where getting out of your car isn’t as easy. Some saw it as just as a ‘stick’ because they had to drive and didn’t have an option... People felt they were being penalized for where they lived.” – Spencer Chandra Hebert

# Tax Politics

How climate leadership may have paid off at the ballot box

Although this is not a universally held view, some interviewees said that — despite the very vocal opposition described here — the carbon tax ended up helping the governing party politically during the next election after adopting the tax.

Some interviewees felt that the tax increased support for the governing Liberal party among the relatively small group of voters who vote on environmental issues. Far more interviewees pointed to a surprise decision by the main opposition party — the New Democratic Party, which falls to the left of the Liberal party on the political spectrum — to oppose the carbon tax. This made the New Democrats appear less “green” than the government; it also created strife inside that party and consumed a significant amount of media attention during the first part of the 2009 election campaign.

After the Liberal party won that election, the New Democrats dropped their opposition to the tax. Since that time, the province has a political consensus in favour of maintaining the tax.

“Every time you make a change someone will tell you it is wrong — there is no unanimity in a democracy. At the end of the day the only test you have is that you get elected on that policy, and that’s what we did.... I don’t want to belittle the role of the tax in getting us re-elected. It reached across political boundaries.” – Interviewee

“The carbon tax had become such a symbol, so it was difficult to explain that we were for climate action but against that particular form of carbon pricing.” – Spencer Chandra Hebert

“There was no [political] advantage until the NDP came out against it — and then some people who cared about the environment and would have voted NDP came over to us.”  
– Carole Taylor

“It is striking that here we are, five, six years later, and there’s effectively a political consensus among parties in the Legislature that we’ll stick with it. Nobody is talking about getting rid of it.” – Interviewee

# Practical Tips

The worst time of year to roll out a carbon tax, and more

Here are some lessons British Columbia officials learned the hard way about how to introduce and communicate a carbon tax.

**Figure out which month typically sees the highest gasoline prices of the year. Don't start collecting your carbon tax that month.** In British Columbia, July historically sees the highest gasoline prices of the year. It's also a busy month for road trips. Officials at the Department of Finance did not take those trends into account when they introduced a carbon tax that took effect on July 1.

**Establish a clear, transparent approach to test which sectors are truly both emissions-intensive and trade-exposed.** It's likely that numerous sectors will try to make the case that the tax will harm their competitiveness. Prepare for this by developing an empirical and transparent "hardship test" to assess each sector's claims for special treatment.

**Index the tax rate to inflation.** British Columbia's carbon tax increased by \$5 a year from 2008 to 2012, but the current \$30 rate is not indexed to inflation. Under that setup, the price signal will diminish over time unless the government announces a new schedule of increases. (Indexing prices to inflation is included in the Western Climate Initiative cap and trade system now in effect in California and Québec.)

**Create personal tax calculators so that voters can determine the specific impact the policy will have on their families.** When it introduced the policy in the 2008 budget, British Columbia's government published hypothetical examples of the tax's impact on household budgets. But few families correspond perfectly to those stock examples. Convincing individual families that they could come out ahead would be easier with personal carbon tax calculators, similar to the ones banks offer for calculating potential mortgage payments. A family would likely feel more confident about the policy's impact on its own budget if it were able to calculate a result based on commuting distance, make of car, household square footage and so on. (These kinds of calculators could also show families the tax savings from investing in, for example, a more fuel-efficient car.)

**Be clear about your principles in designing the policy, and spend time communicating those principles.** A revenue-neutral carbon tax is likely to be unfamiliar to most voters. It's worth investing a lot of time explaining how it works, and why it is different.

**Don't think too small: there's little upside to facing down the critics of carbon pricing unless the policy is meaningful enough to deliver benefits.** Or to put it another way: voters are likely to notice that there's a new tax on the books. If you start too small, they might not ever notice the benefits. In British Columbia's case, the carbon tax was big enough to drop corporate tax rates below those in comparable North American jurisdictions — a feat that the government has actively promoted.

## 8. A carbon tax can't do everything; it needs to be just one component of a full suite of climate policies.



As noted earlier, British Columbia designed its carbon tax to start small and ramp up, so that it would shift investment decisions over time. But some of those decisions — such as building a new industrial facility for a business, or buying a new car for a household — don't take place until years after the policy first comes into effect.

The tax's designers never expected it to be the sole climate-change solution for the province. Instead, they typically describe it as one part of a full suite of policies intended to cut emissions in line with its climate targets. British Columbia's government adopted the carbon tax in 2008, during a second phase of climate action, after enacting a series of other policies the previous year. Some of

those earlier policies — such as the province's consumer energy-efficiency rebates — were likely to be more popular with voters; others would also prove more effective at cutting near-term emissions.<sup>19</sup>

Our interviewees emphasized that the tax was just one piece of the puzzle — and that presenting it that way, rather than overselling its likely impact, made it easier to defend. (Interestingly, former mayor Pamela Goldsmith-Jones also noted the converse: that the carbon tax “was such a shock to the system” that it sparked a bigger conversation about climate change and sustainability among her constituents.)

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<sup>19</sup> See, for example, Ekaterina Rhodes and Mark Jaccard, “A Tale of Two Climate Policies: Political Economy of British Columbia's Carbon Tax and Clean Electricity Standard,” (Canadian Public Policy, Volume 39, August 2013).

“There are things you can do with incentives, regulation, education, and so on. Then fiscal incentives were part of a second phase. The carbon tax was implemented as a final piece to complete a suite of policy measures.”

– Interviewee

“We took a billion dollars out of the surplus and spent that on green spending to try to nudge the economy in a different direction.”

– Carole Taylor

“I don’t know that the tax has affected clean energy as much as the clean energy policy did, meaning our broader climate policy and B.C. Hydro’s clean power requirement.” – Interviewee

“We see greenhouse gas emissions dropping, and the places we see them dropping are homes, vehicles, and somewhat in buildings. That’s because of strong tax and strong incentive programs, combined.”

– Interviewee

## 9. Prepare for motivated, vocal – and not necessarily fact-based – opposition. You’ll need active, engaged supporters and targeted communications strategies to counter the critics.

Several interviewees told us that the government was quite pleased with the initial response to the carbon tax. Immediately following its announcement, environmentalists and policy experts came out strongly in support, and the business community signalled that it was prepared to live with the tax (while giving the province credit for a reasonable design).

But in the days and weeks that followed, media reports zeroed in on the concerns of specific individuals who saw themselves as being harmed by the policy. Our interviewees noted that the tax got a lot of attention from talk radio hosts and — predictably — from the Canadian Taxpayers’ Federation, an advocacy group dedicated to lower taxes.

A lot of the public concern came from rural residents, some of whom felt that the province was asking them to take the impossible step of giving up their cars. One interviewee told us that the government was unprepared for the rural backlash because its internal analysis in designing the tax showed that rural residents were not, in fact, particularly disadvantaged by the tax. Nonetheless, in 2009, the government introduced a tax rebate for rural and northern residents, funded from carbon tax revenues, in response to their sustained critique of the policy.

Any change to tax policy is likely to stir up at least some opposition. Some of our interviewees saw the public response as being predictable, while others said it had some unique characteristics. For example:

- Mary Polak said that the attention the tax garnered gave a fresh platform to people who were sceptical of the science of climate change.
- Kathryn Harrison noted that it was particularly easy to portray this tax as unfair, because most members of the public often don’t see themselves as polluters. (In contrast, even smokers often support tobacco taxes.)

Many of our interviewees had suggestions of ways the government could have better communicated the policy. These include:

- Invest more time in engaging potential allies — such as clean technology companies, economists, or organizations dedicated to helping low-income citizens — so they are well-prepared to actively counter the tax’s opponents.
- Commit for the long term. Defending a policy like this takes years, not weeks.
- Provide tailored information for different demographics or segments of the population to explain what the policy means to them. This would require working with a wide range of public interest and advocacy groups.
- Ensure that the government’s lead spokesperson is a skilled communicator, and invest time in finding as many opportunities as possible for that person to speak about the tax. (British Columbia’s finance minister at the time, Carole Taylor, won praise from several interviewees for her communication skills.)





“It was overwhelmingly popular. We were doing something that made sense. Even in 2008, there was not much negative feedback. It started to come in the spring of 2008, when international gas prices were going up.”

– Interviewee

“All the expert commentary was generally positive, but the public commentary was captured by personal circumstances of ‘losers.’ The government ended up being quite happy with a lot of the technical commentary, but they were not prepared to deal with the public commentary.”

– Interviewee

“In rural communities, there was a complaint that they spent more on fossil fuels. We looked into that and it wasn’t true, but they got a subsidy anyway.” – Interviewee

“What I decided to do was talk about straight economics. So I said ‘I don’t care whether you’re pro- or anti- on climate change. If you’re a conservative, you should be in favour of consumption taxes over income taxes.’”

– Mary Polak

## 10. Prepare for a cleaner environment, an enhanced reputation, and a thriving clean technology sector.



Our interviewees were unanimous in saying that the tax has helped reduce British Columbia's carbon pollution. There were caveats: several noted that the impact of the tax has been modest. Others pointed out that it was just one part of a bigger climate policy effort and that other policies also deserve significant credit. Some also said that British Columbia needs to do more to get on track for its 2020 emissions-reduction target.

As the government highlighted in its 2014 progress report however, the province has attained its first climate target, which was to reduce emissions to six percent below their 2007 level by 2012.<sup>20</sup>

British Columbia is also home to a growing clean technology sector, with more than 150 firms in operation in 2012 — accounting for 22 percent of Canada's clean technology presence in a province with 13 percent of the nation's population.<sup>21</sup> Several interviewees said that the carbon tax had contributed to growth in that sector of the province's economy.

Many of our interviewees were delighted with tax's impact on their province's reputation. One said that the province "is known all over the planet now. We get inquiries about the tax from all over the planet too" — and after the tax was introduced, the premier and the finance minister "became superstars." Mary Polak noted that the tax has enhanced British Columbia's reputation not just environmentally, but economically as well. The Pembina Institute's Matt Horne suggested that even people who don't follow climate change policy closely know that "British Columbia has done something that seems to be working." Several noted — with some chagrin — that British Columbia's policy wins more praise outside the province than inside it.

Finally, a number of our interviewees who helped design the tax look back on it as a highlight of their careers. One described it "a great piece of public policy." Carole Taylor called it the kind of "political challenge, intellectual challenge, communications challenge" that doesn't come along very often. The interviewees who helped develop the policy all reported feeling proud to have been part of it.

<sup>20</sup> <http://www.env.gov.bc.ca/cas/pdfs/2014-Progress-to-Targets.pdf>

<sup>21</sup> Proprietary clean technology data from Analytica Advisors, 2014.

“This is a great example to other jurisdictions about how it can be done successfully, and it also improves B.C.’s reputation as a world leader in something that is recognized as a global priority.” – **Ross Beaty**

“I pay it happily. I’m still proud of what we’ve done. It’s always fun to work with a government that cares about policy issues.” – **Interviewee**

“We’ve gained that reputation as a place that’s very competitive for business and investment, while holding industry to a high environmental standard. I think that’s the kind of province that most British Columbians want us to be.” – **Christy Clark**

“I feel great about it. If I was asked for three things that I feel most proud of, I would pick this as one of them.” – **Interviewee**

# Parting Thoughts

We ended our interviews by asking, “What would be your advice to other jurisdictions considering a carbon tax policy?” Here are some of the responses.

“Do it! It’s the right thing to do. It should be the future of taxation.”  
– Interviewee

“It is a winner. Get smart, make it a winner.” – Interviewee

“No one likes a tax, and if I were doing it again I would call it a carbon levy. Tax is an easy thing to attack.”  
– Interviewee

“Do it early. If a carbon tax is adopted in the first year of a mandate, it allows time for the public to come to understand how the tax works and to realize that the sky won’t fall, time for public support to rebound.”  
– Kathryn Harrison

“Change it from the notion of a tax to an investment in our clean energy future...Give people a positive message and they’ll scramble to be part of it, but guilt doesn’t work.”  
– Pamela Goldsmith-Jones

“Too many people think a carbon tax is politically costly. It is not. It is a benefit; it is sensible and strong public policy.”  
– Interviewee

“Get going. The planet needs it, and so does your economy. Surely we can all agree that more efficient use of energy is good for everybody.”  
– Spencer Chandra Hebert

“Be resolute in selling the long-term, global benefits for citizens, and the benefits to your economy as well through energy cost savings.” – Ross Beaty

“Partner with cities and local governments. You have there a handful of people representing millions of people.”  
– Pamela Goldsmith-Jones

“Too many people think a carbon tax is politically costly. It is not. It is a benefit; it is sensible and strong public policy.” – Interviewee

“If you actually are committed to doing something on emissions, you need to put a price on emissions somehow. A tax is the cleanest way to go.” – Interviewee

“Get the business community on board via revenue neutrality, especially the small business community.” – Kathryn Harrison

“Make sure it’s fair across the spectrum. Make sure those who are lower income are not disproportionately hurt.” – Carole Taylor

“We are getting to a time when people are willing to deal with [climate change] directly and aggressively. The carbon tax was about as small a step as you could take and still say you could do something.” – Interviewee

“Consider impacts on trade-exposed sectors and take steps to mitigate those impacts.” – Interviewee

“Try to create a bipartisan coalition, or at least get trusted voices from the other party onside.” – Kathryn Harrison

“British Columbia has been a leader with our carbon tax, and it’s always been my hope that other jurisdictions will step up and follow our example— or even beat it.” – Christy Clark

# Appendix A

## List of Questions for Interviewees

Our team interviewed 13 British Columbia carbon tax experts during the fall of 2014 in semi-structured conversations based on the questions listed below. Not all interviewees were asked all of the questions.

### Developing and introducing the tax

1. In your opinion, what motivated the government to consider and introduce a carbon tax?
2. Which aspects of the policy design were most contested internally during the development of the policy? Why?
3. The tax has several notable policy design features (e.g. revenue neutrality, five-year scheduled increases, broad application to B.C.'s emissions). Which design choices are, in your view, most important to the policy's effectiveness?
4. What was the response like when the tax was first introduced?
5. Were the government's communications efforts effective in managing that response? Why or why not?
6. Presumably, the government spent some time in advance of announcing the policy thinking about who would likely support and oppose it.
  - Were you surprised by the response from any groups when the policy was introduced?
  - If so, which ones?
7. Do you think the tax level (initial \$10 per tonne price with scheduled annual increases to \$30 per tonne in 2012) was the right one? Why or why not?

### Tax Politics


8. What were the political advantages, if any, of the introduction of the carbon tax?
9. What were the disadvantages, if any?
10. From a political point of view, how could the government's roll-out of the carbon tax have been improved?

### Effect of the policy

11. The B.C. government made several changes to the tax after it came into effect, mainly in response to public critiques (e.g. rural rebate, agricultural rebate, etc.) Do you think those were good changes to the policy? Why or why not?
12. Do you believe that the carbon tax harmed trade-exposed sectors? Why or why not?
13. Do you think the mix of tax cuts the B.C. government has chosen to achieve revenue neutrality is appropriate? Why or why not?
  - Would other uses of the revenue have been more effective?
14. Now that we have over five years of experience with the tax, how would you characterize its impact on B.C.'s
  - Economy?
  - GHG emissions?
  - Reputation?
15. Durability matters with a policy like this one. What allowed the carbon tax to survive its first year?
  - A change of premier?
  - The ongoing absence of comparable carbon pricing policies in North America?
16. How likely do you think it is that the carbon tax will remain in effect over the long term? How likely do you think it is that it will be increased or broadened?

### Reflective

17. What would be your advice to other jurisdictions considering a carbon tax policy?
18. If it were 2008 all over again, what would you / what should the B.C. government do differently?
19. Looking back on it now, how do you feel about your participation in the development of the policy?



*How to Adopt a Winning Carbon Price:  
Top Ten Takeaways from Interviews with the  
Architects of British Columbia's Carbon Tax*

*Clare Demerse*

February 2015

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