



Business Council of British Columbia
Submission on
Province of British Columbia's
Climate Leadership Team
October 2015 Recommendations

April 6, 2016

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HIGHLIGHTS

The attached document contains the Business Council of British Columbia's commentary and recommendations on the Climate Leadership Team October 2015 Report.

British Columbia has carved out a unique response to the issue of climate change and remains a recognized leader in the use and implementation of carbon pricing. The actions taken and the achievements to date provide an opportunity to take stock and carefully consider the next stage in climate policy development amid a changing Canadian policy and political environment.

We see no need for BC to rush to implement significant new measures separate from the policies likely to be pursued by the recently elected federal government – which is committed to stronger climate action than its predecessor. At this juncture, there is a risk that BC could further undermine competitiveness by continuing to layer on additional costs for trade-exposed industries that are already grappling with the steepest carbon tax and among the highest fossil fuel costs in North America. BC should be pragmatic and outward-looking in its approach to managing greenhouse gas emissions. It is time to shift away from a “made-in-BC strategy” and to put more emphasis on working collaboratively in a pan-Canadian context. Climate change can only be addressed through collective action.

Recommendations

Appendix 1 to this submission contains responses to the thematic policy areas covered in the CLT Report, including both affirmation of positive elements and critiques of other CLT proposals. The Business Council also offers three new recommendations. Each would require collaboration with industry and other governments while enabling BC to continue to show leadership across Canada. These new recommendations are:

- Develop a competitiveness lens that, inter alia, is based on the principle that CO₂e charges are the same regardless of production process, plan or emissions history of the country/region of origin or facility.
- Complete work on definitions for energy-intensive, trade-exposed industries. Such definitions should recognize BC's existing relatively low carbon energy system.
- Champion the reinstatement of Class 27 accelerated depreciation under the federal Income Tax Act. This would provide a powerful tool for incentivizing investment in new technologies and processes across the full spectrum of industrial sectors in Canada.

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Introduction

The Business Council of British Columbia is pleased to provide this submission in response to the 2015 Climate Leadership Team (CLT) Report. We appreciate the time and effort that CLT members contributed to preparing the Report and Recommendations to government. The purpose of these comments is to summarize our thinking on a number of the topics canvassed in the CLT Report. For the most part, our views and advice to policymakers have not changed since our previous submissions to government.¹

By way of background, the Business Council, established in 1966, is an association representing some 250 large and medium-sized enterprises engaged in business in British Columbia. Our members are drawn from all major sectors of the province's economy, including forestry, energy, mining, manufacturing, transportation, advanced technology, health research and life sciences, tourism, retail & wholesale trade, construction, utilities, post-secondary education, and professional, scientific and technical services. Taken together, the enterprises, academic institutions and sectoral associations affiliated with the Business Council account for approximately one-quarter of all private sector payroll jobs in British Columbia.

The comments that follow reflect our diverse membership. Several of our member organizations will be coming forward with detailed input on specific aspects of the CLT Report that are relevant to them.

Context for BC Climate Policy

Canada and North America

The Canadian and North American landscape around climate policy has shifted. In Ottawa, the recently elected federal government is committed to taking firmer action on climate change but is exploring collaborative ways of addressing carbon pricing and other issues with the provinces and territories. Alberta has unveiled an updated suite of climate policies, and Ontario is working out the details of its cap-and-trade program which, once operational, will be linked with similar cap and trade systems in place in Quebec and California. The Obama administration is moving ahead with its Clean Power Program, notwithstanding recent legal setbacks and continued opposition in some quarters. The State of Washington is expected to hold a referendum on a carbon tax at the time of the November 2016 election.

This changing landscape provides an opportunity for British Columbia to take stock, share the lessons learned from the last eight years, and show leadership in presenting ideas and options for Canada that can be an advantage for our province. It is time to move past the made-in-BC model of climate policy that

¹ September 2015: http://www.bcbc.com/content/1925/BCBC_Sub_Climate_Leadership_Plan_Sept2015.pdf; and September 2012: <http://www.bcbc.com/submissions-presentations/2012/submission-bcbcs-submission-to-the-provincial-carbon-tax-review>.

has characterized the BC government's approach since 2007. Among other things, persisting with an inward-looking policy orientation will fail to yield the kinds of results that most are hoping to achieve.

Working Together in a Pan-Canadian Approach

Re-orienting toward a pan-Canadian view is important for several reasons. Working together is the only way to find meaningful solutions to the problem of climate change. In addition, and in light of the recently signed *U.S.-Canada Joint Statement on Climate, Energy, and Arctic Leadership*, Canada cannot fulfill its commitments in this area without engaging the provinces and territories, as well as our continental partners in the United States and Mexico. The premise of the new Canada-U.S. agreement is collaboration and a search for solutions and strategies that embrace common policy objectives, while respecting jurisdictional realities. None of this forecloses Canada or any province from adopting measures that are uniquely suited to its own circumstances (e.g., the possibility of increasing the existing BC carbon tax at some point in the future). However, taking a step back, reflecting on a portfolio of options, and recognizing where BC currently sits on climate policy is today the most sensible course of action for provincial decision-makers. In our view, there is little to be gained by continuing with a "made-in-BC" approach, as is suggested in the CLT Report.

BC Carbon Pricing in Perspective

On the issue of carbon pricing, British Columbia's carbon tax has been acclaimed by academic economists and international organizations as "a text book version" of what a carbon pricing regime should look like. It is economy wide² and revenue neutral (in principle) to the government. The tax is aimed at changing behaviour – namely, the consumption of fossil fuels – through the use of a price signal that affects both households and firms. The tax is transparent and relatively easy to administer. All of these are strengths of the BC model.

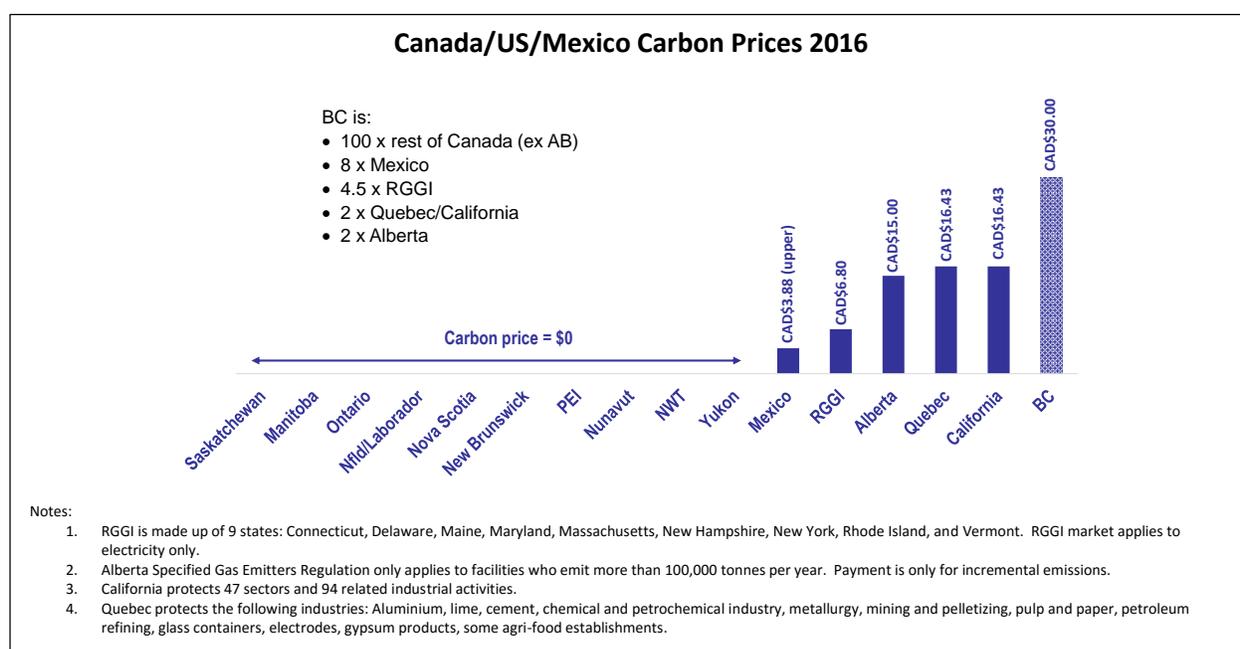
The Business Council supports the principle of carbon pricing. That said, the success of the BC tax has been modest in environmental terms, and the economic results mixed. Some analysts claim a large decline in GHG emissions due specifically to the tax, while other data suggest a more limited impact. The latter is consistent with the fact while the carbon price is known, the path of emissions depends not just on the carbon tax, but also on the industrial structure and performance of the economy along with many other domestic and external factors. It is important to remember that BC launched its carbon tax coincident with a severe global economic downturn in 2008/09. Some portion of the GHG reductions that BC recorded between 2008 and 2012 was a result of plant shut-downs, depressed employment, and reduced economic activity over that period. Still, there is evidence that the carbon tax did have some impact on the province's emissions level and trajectory.

Apart from that, we would note that when economists argue in favour of "pollution taxes" like the BC carbon tax, they typically present such fiscal measures as an alternative to traditional command-and-control regulations, subsidies/incentives, and other forms of government intervention which are believed to result in greater costs for any given reduction in pollution or environmental harm. In practice, what has

² A portion of the province's GHG emissions from industrial processes and the agriculture sector is not covered.

evolved in British Columbia and a number of other jurisdictions with carbon pricing schemes is a picture that differs from that described in economics textbooks. Carbon pricing tends to be implemented not as a more efficient alternative to other, less market-friendly policy instruments, but rather in addition to command and control regulations, product standards, and subsidy/incentive programs of various kinds. As a result, the aggregate economic cost of climate policy ends up being considerably higher than the academic proponents of carbon taxation appear to have in mind. This describes accurately the story that has unfolded in British Columbia: the province implemented the carbon tax in tandem with more stringent government regulations (e.g., the Low Carbon Fuel Standard) and the prescriptive and interventionist 2010 *Clean Energy Act*.

Regardless, British Columbia remains a leader in North America and indeed the world in pricing carbon.³ Many regions that have embraced carbon pricing have chosen more complex emissions trading schemes (ETS) rather than BC's simpler carbon tax model; examples include the European Union, California and Quebec, South Korea, Japan and more recently Ontario. A few jurisdictions have used a combination of ETS and carbon taxes (e.g., Norway and Sweden). Importantly, under all known ETS schemes, including the European Union's ETS program,⁴ industrial emitters pay less – sometimes substantially less – for their GHG emissions than do similar companies and facilities located in British Columbia. This is because under its carbon tax policy, BC has failed to protect, or even to recognize, the economic position of energy-intensive and trade-exposed domestic industry sectors that have been forced to deal with escalating fossil fuel taxes. All other jurisdictions which have implemented carbon pricing or related GHG reduction schemes took care to safeguard the competitiveness of what were judged to be vulnerable export and other trade-exposed industries. British Columbia did not, with two minor exceptions.⁵



³ <http://www.bcbc.com/bcbc-blog/2015/is-the-price-right-a-comparison-of-carbon-pricing>.

⁴ Sweden and Norway are also part of the EU ETS.

⁵ Greenhouses and cement production.

Competitiveness

Competitiveness⁶, therefore, has been an ongoing concern for significant segments of the British Columbia business sector, as the province has continued to implement its carbon pricing and climate policies. This is especially true for natural resource-based industries, the manufacturing sector, and transportation. BC's rich endowment of land and resources is the envy of many.

The development of our natural resource industries has been the source of much wealth generation, while also supporting important parts of the high-wage services sector in BC that have close business links to the resource-based economy (including engineering, finance, professional services, and environmental consulting). Of interest, resource-based industries supply about three-quarters of the province's merchandise exports. Other manufacturing industries outside of the resource sector that are exposed to foreign competition and rely on fossil fuel energy sources account for another 10% of BC's exports.

Overall, then, something in the vicinity of 85% of the province's merchandise exports originate in industries whose competitive position depends, in part, on energy input costs. This is a critical element of the public dialogue that seems to have been overlooked by those who seemingly welcome the shutting-in of domestic industrial activity through a policy that would impose ever increasing tax costs and regulatory burdens on locally-based fossil fuel producers and users. In BC we further exacerbate the cost of largely clean electricity generation by adding a 7% provincial sales tax to the bills of commercial and industrial consumers. If at some point it becomes too difficult and expensive to do business in BC, capital and jobs in the natural resource and manufacturing industries will flow elsewhere, as production migrates to jurisdictions with lower tax-inclusive business operating and capital costs. British Columbians, collectively, will be worse off as a result.

BC's Main Trade Industries (value of <u>merchandise exports</u> , 2015)	
Wood products	\$8.5 billion
Pulp and paper	\$4.4 billion
Total forestry	\$12.9 billion
Metallic minerals	\$4.4 billion
Machinery and equipment	\$4.8 billion
Coal	\$3.1 billion
Natural gas	\$1.4 billion
Agrifood products	\$2.7 billion
Fabricated metals	\$1.1 billion
Fish products	\$1.1 billion
Chemical products	\$1.1 billion
Plastics	\$426 million
Apparel etc.	\$124 million
Total BC goods exports	\$35.8 billion

The good news is that our province does have some advantages in terms of energy mix, geographic location and environmental performance. Compared to most of North America, BC's broad energy system is largely carbon free – a fact that usually goes unacknowledged. This is particularly true in electricity generation, which is 97% renewable, meaning that we are a jurisdiction with one of the highest

⁶ Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them.

percentages of renewable generation, globally.⁷ In addition, BC has extensive resources of natural gas, the least carbon-intensive fossil fuel, which is both a valuable inheritance and a significant opportunity.

With these energy inputs, we are able to (and do) produce materials and goods that, on a global basis, are less-emissions intensive than those produced by most comparator jurisdictions. For example, BC's recently upgraded aluminum smelter is about to operate at a GHG rate of ~2t CO₂e/t aluminium. The typical US smelter discharges 10-12t CO₂e/t aluminium, while the European Union average is ~13t CO₂e/t aluminium. Arguably, every unit of BC energy and industrial output that is produced and exported, including aluminum, iron, metallurgical coal, primary and processed foodstuffs, and even natural gas, has a lower GHG profile than equivalent outputs from the United States or most other suppliers that we compete with for both market share and investment capital.

Energy Intensive/Trade Exposed Industries

In terms of sectors potentially at risk under carbon pricing regimes, the European Union has a list of 164 energy-intensive, trade-exposed (EITE) industries,⁸ including aluminium, lead, zinc, cement, petrochemicals, copper production, other non-ferrous metals, among many other types of industrial activities. **“Production from sectors deemed to be exposed to a significant risk of carbon leakage [is] allocated free emissions permits corresponding to 100% of historical production, and referenced to product-specific benchmarks for the average of the 10% most GHG efficient installations.”** In South Korea, **“energy-intensive and trade-exposed sectors receive 100% of their allowances for free.”** California has identified 47 sectors and 94 related industrial activities as high, medium and low risk for carbon leakage. These industries receive protection at 100% for high risk, 75% for medium risk, and 50% for low risk under the state's cap and trade program.

The best known mechanisms for protecting EITEs are designed for use in emissions trading schemes and generally involve the distribution of free (or partially free) allowances. It is difficult to provide protection to vulnerable industry sectors in the same way under a carbon tax framework. The main mitigation tools with a carbon tax are likely to take the form of exemptions/refunds/rebates/credits. Using these, however, may undermine transparency and increase the administrative costs and complexity of a tax. In BC, the deployment of such tools would further widen the gap between revenue collected by the government from the carbon tax, and that which is redistributed via other tax reductions/incentives. At present, this gap is forecast to be about ~\$500 million for each of the next three fiscal years.⁹

Adaptation

Overall, the Business Council is concerned about the implications of BC taking further aggressive near-term action to address GHG emissions, via carbon pricing or other policy/regulatory tools, until a larger

⁷ Worldwide, most utility generation from clean/renewable sources sits at less than 30%, with many large jurisdictions such as the US, Russia, China and India deriving less than 25% of their electricity from renewable resources. Even countries that are considered to be leaders in renewable generation such as Sweden, Denmark, and New Zealand get no more than 70-80% of their electricity from renewable resources.

⁸ http://ec.europa.eu/clima/policies/ets/cap/leakage/index_en.htm.

⁹ BC Budget and Fiscal Plan, 2016/17 to 2018/19, page 58.

group of other jurisdictions has caught up to where the province is today. There is one exception - adaptation. This is an area that has garnered little notice because it may seem more pedestrian compared to higher profile conversations about regulations and carbon taxes. However, building infrastructure and strengthening the ability to manage and respond to emergencies and disruptions (i.e., weather events, drought planning, building dykes in urban areas, etc.) is a function that governments are uniquely qualified to perform. More attention should be paid to what can be done with adaptation measures.

Policy Leadership on Competitiveness

The Business Council believes it is critical to define and adopt a “competitiveness lens” to review proposed climate policy measures that may be taken in the future. The exercise should begin by acknowledging a fundamental reality: BC is a small, open economy whose trade-exposed industries and companies have little or no ability to influence prices or product standards in the global market context. Moreover, as a sub-national jurisdiction without its own currency or monetary policy, British Columbia cannot rely on exchange rate adjustments to help mitigate the effects of increased domestic taxes, fees and regulatory burdens on the competitive positions of domestic trade-exposed industries. Finally, in recent years British Columbia has lost significant ground on overall business tax competitiveness. Specifically, the “marginal effective tax rate” on new capital investment¹⁰ has risen sharply, mainly due to the restoration of the 7% retail sales tax (the PST) in 2013 – but also because the government increased the basic corporate income tax rate in that year. As a result, BC now ranks near the bottom among advanced industrial jurisdictions on this important measure of business tax competitiveness – a point that provincial policy-makers need to keep in mind as they consider imposing additional tax and regulatory burdens on BC industry.

Marginal Effective Tax Rates on New Capital Investment (2005, 2011 and 2014, average for all industry sectors combined, in percent)			
	2014	2011	2005
Canada	18.8%	18.8%	38.8%
BC	27.5%	19.0%	39.2%
Alberta	17.0%	18.2%	31.7%
Ontario	18.2%	19.3%	43.3%
Quebec	15.2%	17.5%	36.1%
USA	35.3%	35.3%	35.9%
Japan	29.3%	31.5%	31.5%
Australia	25.9%	25.9%	25.9%
UK	23.7%	27.2%	30.0%
Germany	24.4%	24.0%	34.0%
France	36.0%	35.1%	35.4%
Sweden	16.1%	19.5%	20.9%

BC now has the 6th highest average METR among the ten provinces and 34 OECD countries combined, as well as the 2nd highest average METR in Canada.

Source: “The 2014 Global Tax Competitiveness Report,” D. Chen and J. Mintz, School of Public Policy, University of Calgary, SPP Research Papers, Volume 8, Issue 4, February 2015.

Looking ahead, provincial policymakers need to be realistic about BC’s very limited capacity to effect change, given that our GHG emissions represent about 0.18%¹¹ of the global total. Any assessment of next steps in climate policy should account for the fact that BC’s existing endowment of industries and

¹⁰ The METR is measure of the aggregate tax burden on an incremental dollar of capital investment. It includes the income taxes on net business income, sales taxes on capital and other business inputs, asset based taxes, and financial transaction taxes. Some METR estimates (although not those reported here) also include the impact of investment tax incentives and tax credits. See D. Chen and J. Mintz, “The 2014 Global Tax Competitiveness Report: A Proposed Business Tax Reform Agenda,” School of Public Policy, University of Calgary, SPP Research Papers, Volume 8, Issue 4, February 2015.

¹¹ 2013 data.

mix of goods and services produced and exported makes our province one of the least emissions-intensive jurisdictions in North America, if not the world. We respectfully submit that this sense of perspective and proportion is absent from the CLT's Report.

Using a competitiveness filter to screen policies and regulatory options would enable British Columbia to shift its focus away from internal, made-in-BC issues toward a climate policy framework that puts more emphasis on the scope for and advantages of market linkages. Importantly, and to reiterate comments made in previous Business Council submissions, policymakers must avoid actions that effectively amount to double or triple burdening local production. At this point, we see little logic in concentrating on BC solutions to problems that can only be tackled collectively. Going forward, British Columbia should work in a pan-Canadian context, e.g., by supporting and facilitating Canadian standards that apply to the built environment and that address transportation related GHG emissions. Progress in these areas will be hard to come by and costly if pursued on an individual, province-by-province basis. BC should also be collaborating with other western provinces to explore opportunities to move to a lower-carbon electricity system across the region (by encouraging cross-border trade in energy and developing stronger interconnections). Finally, with its unique experience, BC can also contribute to the development of a national carbon pricing framework.

With the above background and context in mind, Appendix 1 contains our specific responses to the Climate Leadership Team's recommendations. The section immediately below briefly touches on a few new ideas for consideration by BC policymakers.

New Recommendations

1. Competitiveness Lens

BC has carved out a way of managing carbon that is different from almost any other jurisdiction in the world. Maintaining that status will not be achieved by continuing to increase production costs (either through an increase in or a broadening of the base of the carbon tax, or imposing additional fees and levies) and shutting down the development of energy, raw materials and manufactured goods that the world needs. The worldwide demand for energy, raw materials and energy-intensive manufactured goods will continue to grow. BC should not discount its natural gas inheritance as a form of energy that can replace thermal coal in some uses on a global basis. BC should also recognize and promote its position as a jurisdiction that supplies some of the least emissions intensive products and materials for the global marketplace.

Budget 2016 announced a Commission on Tax Competitiveness¹² with a mandate to "identify ways in which the Province's economy is changing and evaluate the current tax structure with the context of those changes." The Business Council recommends that the government defer making any decisions on the future of the carbon tax until the Commission has completed its work. This will ensure that any potential modifications to the carbon tax are considered within a broader tax policy context.

¹² BC Budget and Fiscal Plan, 2016/17 to 2018/19, page 59.

This outcome could then become part of a competitiveness lens that the government uses to evaluate all future policy and regulatory actions related to GHGs as well as those that may be linked to the implementation of new Canadian Ambient Air Quality Standards (CAAQS).

The Business Council also offers the following additional thoughts on how to address concerns about competitiveness within Canada as well as internationally in developing the next phase of climate policy. Under a fair CO₂ rule (globally or in North America), energy and building products with identical CO₂e profiles should be subject to identical direct and/or indirect CO₂e charges. In theory, there should be no CO₂e charge differentiation by production process, plant or emissions history of the country/region of origin or facility. In this way, buyers are indifferent to the CO₂e content between like products, regardless of their origin. While this is not necessarily a BC-specific issue, it is one that could be championed within Canada as part of BC's contribution to climate policy development, and as a logical follow-on to the recent Canada-US agreement. This perspective fits with that agreement's statement that "Canada and the U.S. will align approaches, reflecting the best available science for accounting for the broad costs to society of the GHG emissions that will be avoided by mitigation measures, including using similar values for the social cost of carbon and other GHGs for assessing the benefits of regulatory measures."

2. EITEs

As noted above, small sub-national economies like BC cannot use tools like exchange rates to help manage competitiveness challenges for EITEs that arise when government action results in increases to tax-inclusive business costs. Furthermore, the most common mechanism for protecting EITEs – the fully or partially free allocation allowances – is meant for ETS¹³ and so is not a good fit with a carbon tax model. In addition, the process for developing definitions of EITE requires an understanding of each sector and subsector by North American Industry Classification System and International Standard Industrial Classification¹⁴ codes. This is a complex exercise that cannot be completed in the short-term.

The Business Council recommends that British Columbia commence work on the development of a set of principles that could be part of a process to determine vulnerable BC industries/sectors. This would be followed by steps to establish metrics and thresholds for the selected industries. In this regard, there are insights to be gleaned from the experiences of the European Union, California, Quebec, South Korea, Japan and Australia. Business Council members are willing to work with government officials on the development of definitions that protect our emission-intensive, trade-exposed sectors and maintain the competitiveness of BC businesses. This information will also be necessary should a North American ETS of some kind eventually become a reality. If that happens, BC will need to have thought through how it can integrate with such a system and safeguard the competitiveness of locally-based EITEs. Such definitions would also be useful in the event that the province decides to look at tools like rebates/refunds/credits under its carbon tax policy.

The Business Council also recommends that BC's 7% provincial sales tax on electricity consumption for commercial and industrial consumers be removed, regardless of future government decisions on the

¹³ Also referred to as cap and trade.

¹⁴ <http://unstats.un.org/unsd/cr/registry/isic-4.asp>.

carbon tax. To be clear, this is not the same recommendation as that made by the CLT. Removing the PST recognizes the perverse effect of charging a consumption tax on renewable energy if the government's policy objective is to encourage electrification.

3. Class 27 Accelerated Depreciation

"Energy transitions are not sudden revolutionary advances that follow periods of prolonged stagnation, but rather continuously unfolding processes that gradually change the composition of sources used to generate heat, motion and light."¹⁵ Innovation is necessary to keep ahead (or at least abreast) of the curve. Innovation is about changing or creating more effective processes or products, and it usually requires substantial investments of financial capital. In many industries, deploying capital to invest in British Columbia is economically challenging because other jurisdictions provide more attractive hosting conditions, including lower fiscal burdens,¹⁶ more efficient regulatory processes, and greater certainty for private sector entities contemplating long-term investment commitments.

The use of depreciation enables a company to charge as an expense a portion of the investment made to acquire or build an asset that relates to the revenue generated by that asset. It is not a subsidy and therefore does not attract countervailing trade tariffs/duties. Allowing depreciation provides a positive signal to investors who might otherwise not consider making an investment.

A consistent theme in the climate change debate is the need to incentivize the development and adoption of new clean technologies. One way to do this is through accelerated depreciation. Canada already has a measure contained in [Schedule II of the Income Tax Act](#) – Class 27. Although its application has expired, a few simple amendments could transform this existing provision into a powerful tool for GHG reduction and air quality improvement in Canada, and thus BC.

The original Class 27 was designed to incent owners of Canadian industrial facilities to invest in preventing, reducing or eliminating air pollution (e.g., fine particulates, NO_x, SO₂). Modernizing the class could be done to address emerging/new CAAQS requirements but also by adding GHGs to the list of emissions sources. The benefit of this class of depreciation is that it does not prescribe any specific technology, equipment or industrial process change. The rules are agnostic in this regard. The focus is on encouraging investment to reduce specified pollutants. Therefore, and importantly, the choices about which technology to use/deploy are left entirely up to market participants and their technical advisers. This takes both government officials and interest groups out of the process of specifying the types of technology or process changes. Operators of plants and equipment qualify for the accelerated depreciation only if/when they demonstrate reduced discharges in an *ex post* assessment. Risk is born by the investor, not the taxpayer.

¹⁵ Energy Transitions, Vaclav Smil, Distinguished Professor Emeritus, University of Manitoba, Canada.

¹⁶ As discussed above, with the return of the PST, British Columbia is now in the unfortunate position of having a relatively unattractive business tax regime for new capital investment across a range of industry sectors.

As noted, Class 27 already exists but is dormant. Amendments to incorporate GHGs would be simple. Therefore, the Business Council recommends that British Columbia pursue with Canada the reinstatement of Class 27, which should:

- Include a reference to GHGs as well as ambient air pollutants.
- Include an appropriate accelerated depreciation rate.
- Exclude investments that already qualify for Class 43.1 and 43.2 depreciation.

Moving forward on this issue would help to foster investments in clean technologies and avoid the need for direct subsidies from government and for government officials to be engaged in “picking” specific technologies.

Appendix

Business Council Responses to Specific Climate Leadership Recommendations.

Targets

The CLT has recommended changing the 2020 target by making it a 2030 target and increasing the percentage reduction from 33% to 40% below 2007 levels. As well, it recommends specific reductions in both percent and mega tonnes as follows:

- transportation -- 6.3 MT transportation (-30%)
- industry -- 8.4 MT industry (-30%)
- built environment -- 3.4 MT built environment (-50%)

The Business Council supports scrapping the 2020 target, but we are unclear how the proposed 40% target for 2030 was chosen and we are concerned by the absence of any cost-benefit analysis underpinning the recommendation. Increasing the required target by seven percentage points relative to 2007 is no guarantee of success. The original target assumed a 2.5% per year rate of reduction between 2008 and 2020. By 2013, British Columbia had achieved ~2.8% in reductions,¹⁷ leaving a gap of 30.2%. Extending the deadline but increasing the quantum of emissions means BC will have to achieve a 37% reduction by 2030. This is onerous and likely undoable given that most of BC's low cost abatement opportunities appear to have been realized.

In addition, the 8.4 MT emissions decline for industry equates to a -2% /year reduction from this sector, assuming fugitive emissions from the oil and gas industry are dealt with separately. Importantly, BC has limited options for fuel-switching in the industrial sector, particularly vis-à-vis electricity inputs. However, lowering GHG emissions from electricity generation is how most other jurisdictions have been able to make progress toward their stated targets. There is undoubtedly some scope to further reduce emissions from industrial activity in BC, but we are not convinced a 30% cut is attainable without significant deindustrialization. In the end, continued advances in technology and innovations to support the shift to a lower carbon economy will be the key steps necessary to deliver a sizable drop in GHG emissions from the industrial sector without putting the competitiveness of the province's manufacturing and resource industries at risk.

The Business Council recommends that the Ministry of Finance be required to model the impacts of the CLT's targets before the government makes any decisions in this area. Any targets chosen should be based on a realistic forecast of what can be accomplished given BC's existing low-carbon electricity sector and the fact that significant abatement measures have already been implemented. For further details on the Business Council's views on the modelling work done for the CLT, see [here](#).

¹⁷ 1 – (64,027/ 65,889).

Carbon Tax

The Business Council supports pricing carbon as part of a suite of policies designed to help meet climate policy goals. At this time, however, we do not support an increase in BC's existing \$30/t tax or a broadening of its application to capture process emissions. As discussed above, the scope and coverage for the carbon tax in its current form has given rise to competitiveness concerns for a number of the province's most important trade-exposed industries. Further increases in the tax would exacerbate the problem and lead to reduced investment in BC. See our short paper on [Putting BC's Carbon Tax in Perspective](#).

We appreciate the CLT's recognition that energy-intensive/trade-exposed industries are vulnerable to ever rising carbon costs and the suggestion that the Provincial Sales Tax be lowered by 1% as a partial offset to the recommended increases in the carbon tax. We do not believe that a small across-the-board cut in the PST is an efficient means to address declining industrial competitiveness. As noted above, the Business Council recommends that the government wait until the Commission on Tax Competitiveness has finished its work before considering any changes to the carbon tax regime.

Oil and Gas

The Business Council supports the recommendations made by the Canadian Association of Petroleum Producers, in particular those related to electrification and methane emissions.

With Canada's recent commitment to developing regulations by 2017 for managing methane emissions, it will be critical for BC (and Alberta) to be part of this process and for our province to align its approach with competing jurisdictions. This is an opportunity to promote the work of the BC Oil and Gas Commission, which has been a leader in adopting leading-edge flaring and venting requirements for the oil and gas sector since 2011.¹⁸

Forestry and Agriculture

The Business Council supports a focus on adaptation for the forestry and agricultural sectors.

Transport

The Business Council supports:

- The specific recommendations from the BC Trucking Association on ways to assist the trucking sector to improve fuel efficiency and reduce its GHG emissions.
- The recommendations made by the Canadian Fuels Association on the need for a review of compliance feasibility for meeting the 10% carbon intensity target set by the Low Carbon Fuel Requirements Regulation before March 31, 2017. Our understanding is that the Minister of Energy and Mines has agreed to undertake such a review.
- The exploration of a vehicle registration system as one possible tool for managing congestion, which, if successful, would have positive effects on GHG emissions from personal vehicle use.

¹⁸ [Flaring and Venting Reduction Guidelines](#), 2011.

- Significantly increased investment in public transit, funded in part by greater use of road-pricing programs in the lower mainland.

The Business Council has general concerns with:

- Governments choosing technology (i.e., electric vehicles) and adopting sales targets, as favoured by the CLT.
- The overall cost to consumers from implementing the CLT's various transportation-related proposals.
- The suggestion that BC legislate a 20% Low Carbon Fuel Standard by 2030, particularly in view of the difficulty of meeting the existing 10% requirement.

More efficient options for encouraging different vehicle choices by consumers would be:

- Continuing to improve CAFE standards.
- Crediting Original Equipment Manufacturers directly for scrapping older vehicles.

Both of the above actions would require collaboration and coordination with Canada.

The Built Environment

The Business Council supports:

- A focus on Building Codes. In particular, there is an opportunity to work within a Canadian context to align standards across the provinces.
- The concept of on-bill financing options for GHG reduction retrofits for households.

The Business Council has concerns with:

- The assumptions and anticipated responses of households to the CLT's recommendations, given existing affordability challenges in urban areas of British Columbia.
- The net cost to consumers from the CLT's energy efficiency proposals.
- The assumptions used to model the typical household's behaviour and capital stock turnover, from which the CLT apparently derived its recommendations for the built environment.

Communities

The Business Council supports:

- A review of the Climate Action Charter.
- Finding ways to enable waste-to-energy strategies, but without resorting to cross-subsidization through electricity rates.
- Investment in public transit, as noted above.
- Hazard mapping, monitoring, risk management, and communications (see comments on adaptation).

The Business Council is concerned about:

- Funding sources for the proposed community actions, and possible increases in local and other government taxes/fees/levies which would drive up business costs and further erode competitiveness in the province.

Miscellaneous

The Business Council supports:

- A review of offsets.
- Work to explore and plan for the possibility of a North American cap and trade system (see our background paper on [Carbon Pricing, Fusion Style – Policy Issues to Consider When Carbon Taxes Meet Cap-and-Trade](#)).
- A stronger BC focus on increasing coordination and collaboration with Canada and other provinces and territories in all areas of climate policy.
- Pursuing efforts to replace diesel fuel in non-integrated areas and First Nations communities, particularly as this relates to opportunities for private power development including combined heat and power options.
- Creation of a working group of experts to research and make recommendations on how BC can advance and take advantage of low-carbon economy opportunities. This group would need well-defined terms of reference, a balanced representation of interests, and sufficient time to complete its work.

The Business Council is concerned about:

- Amending the *BC Environmental Assessment Act* to include a social cost of carbon assessment criterion, as this would amount to double counting in project reviews given the existence of the province's carbon tax.
- Moving to a 100% Renewable Portfolio Standard because of potential electricity rate impacts and the failure to consider opportunities for natural gas generation using BC's vast gas resource.
- The lack discussion and focus on cross-Canada (and broader) market linkages in the CLT's Report.
