

New strategy for countering the bite of carbon taxes. New School of Public Policy report

For Immediate release

June 29, 2017

CALGARY- Canada is implementing a national carbon tax. Starting in 2018, all provinces will be required to have a minimum carbon price of \$10 per tonne and reaching \$50 per tonne in 2022. But, this decision to impose a minimum national price on carbon emissions has the potential to make certain businesses in the country less competitive. Why? For certain Canadian industries, the obligation to pay a carbon price creates a competitive disadvantage: businesses will face higher costs and may encounter a loss of market share to international competitors from jurisdictions that lack the same pricing. That not only hurts Canadian businesses, it could also negate any emissions reductions that carbon pricing in Canada achieves on a global scale. So, the federal government has opted to protect such emissions-intensive, trade-exposed businesses using subsidies called output-based allocations (OBAs).

The School of Public Policy and authors Sarah Dobson, G. Kent Fellows, Trevor Tombe and Jennifer Winter released a new report today that describes the principles of policy design that can help make the implementation of OBAs efficient, fair and effective. The recommendations provided in the report are informative for the design of both carbon tax and cap-and-trade systems.

According to author Jennifer Winter “OBAs are a desirable complementary policy to a carbon price as they maintain the incentive for producers to invest in production methods and facilities that are less emissions intensive. So while producers are still, nevertheless, subsidized to offset the tax burden of the carbon price, they will, under an OBA system, see greater benefits the more they work to reduce their emissions intensity. Still, to function most effectively and most efficiently, an OBA policy should follow certain key principles.”

Some key principles outlined in the report include: ensuring that OBAs are allocated to facilities independent of their individual emission levels, and allocated equally, per unit of output; transparent costs, including a clear accounting of OBAs in government finance reports to ensure the public is fully aware of the revenues being directed to the subsidies; and a well-designed OBA system should seek to be as administratively efficient as possible with minimal implementation costs imposed on government and businesses.

It is important to recognize that the federal carbon price and OBAs are a new policy and that many large emitting facilities have been making investment decisions based on a previous regulatory environment. Therefore, a compromise approach may be to initially provide an output subsidy based on a facility's past emissions intensity and then to transition gradually to the optimal OBA system over time.

The report can be found online at www.policyschool.ca/publications/

-30-

To request an interview with the author(s) or for more information please contact:

Morten Paulsen
403.220.2540
Morten.paulsen2@ucalgary.ca