

YUKON CHAMBER CARBON PRICING POLICY – FINAL

OPENING STATEMENT

The objective of carbon pricing, whether it takes the form of a carbon tax or cap-and-trade, is to incentivize the end-users of consumption goods whose production involves the emission of carbon to reduce their consumption, in recognition of the adverse societal impacts that that carbon emissions and climate change have. It is therefore reasonable to evaluate the effectiveness of a carbon tax or cap-and-trade by the extent to which it achieves a reduction in fossil-fuel-carbon emissions without or while minimizing adverse economic consequences.

On October 3, 2016 the Government of Canada announced that carbon pricing would be imposed by the federal government if provinces and territories did not adopt their own carbon pricing approach by 2018. The federally-imposed carbon pricing would start off at \$10/tonne in 2018, rising to \$50/tonne by 2022.

On December 9, the Federal government held meetings with the 13 provincial and territorial Premiers and released a document entitled the “Pan Canadian Framework on Clean Growth and Climate Change”, identifying efforts being undertaken by each province and territory.

The Yukon Chamber of Commerce is concerned by the federally imposed carbon pricing for two reasons. Firstly, the Chamber feels that Yukon businesses and consumers may not have mechanisms for reducing their consumption to the same extent as people living in more heavily populated areas of southern Canada, meaning that a carbon price in the Yukon may not result in a meaningful reduction in the Yukon’s carbon footprint to the same extent as is possible elsewhere. As a result, the imposition of a carbon tax in the Yukon could be disproportionately punitive for Yukon businesses and citizens, and provide incremental tax revenues to the territorial government while not achieving the core objective that underlies the decision to impose the carbon tax in the first place. Any such incremental tax revenues may, however, still be used to incent reductions in carbon emissions.

Secondly, the Chamber is concerned that the impact of a carbon tax on consumers of fuel in the Yukon, and in all Northern regions of Canada, is not well understood and so must be more thoroughly examined. Northern Canada is sparsely populated, large in area, and cold and dark much of the year, and tends to have a much longer and more carbon-intensive supply chains for most goods and services. As such, it seems likely that the carbon footprint of an individual person is comparatively high in Northern Canada. A carbon tax is therefore higher on a per capita basis in the Yukon, and rest of the north vs. southern Canada, all else being equal. The Chamber feels that a more rigorous analysis of the impacts of a carbon tax on individuals and families in the Yukon and other Northern regions is required, and expresses an interest in leading such an effort.

Finally, the Yukon Chamber recommends the creation of an arm’s-length, apolitical, independent and professionally managed third-party Yukon Green Energy Trust to manage the allocation of carbon-pricing revenues. As stated below these revenues

should not be directed into general coffers of government but rather be specifically targeted for reductions in fossil-fuel consumption and renewable-energy solutions.

Recommendations

The Yukon Chamber of Commerce is not comfortable with a “one-size-fits-all” approach to carbon pricing, and is encouraged by the newly-released “Action on Pricing Carbon Pollution” document, which identifies differing approaches for each province and territory. YCC recommends that the Yukon government engage with the other Northern Territories to identify “made in the North” solutions that contribute to reducing Northern greenhouse gasses. YCC believes that the Federal government should acknowledge the unique challenges that the North faces, and that the Yukon and the rest of the North may not be able to contribute at the same level as the southern provinces without additional financial support beyond Yukon’s carbon-price revenue.

An alternative to more revenues might be a lower or delayed set of emission targets for the North, acknowledging the lack of short-term infrastructure that are readily available in the South (rail systems, inter-connected electrical-grid infrastructure, roads in the case of Nunavut, and parts of the NWT and the Yukon, etc.). As well, it would acknowledge that our sparse and distributed population living in a dark and cold region, distant from supply centres of necessities such as food, fuel and all other material goods, deserves additional support.

For a private-sector economy largely comprised of the resource and tourism sectors, reduced taxation of off-road and aviation fueling, in conjunction with incentives to reduce consumption, should be considered.

Conversely, a carbon tax may stimulate business development in sectors currently supplied from the South if there is sufficient additional profit to for local businesses to be able to complete. This could result with major growth in our agricultural sector, to grow more food locally, as an example, or pioneering innovative use of new technologies in the North that reduce or allow better adaptation to a warming climate.

The YCC encourages the territorial government to support the creation of an arm’s-length, apolitical and independent body to manage the allocation of carbon pricing revenues. As stated below such revenues should not be directed into general coffers of government but rather be specifically targeted for reductions in fossil-fuel consumption and renewable-energy solutions. Such solutions might, for example, include retrofitting of buildings with additional insulation, support mechanisms to develop local food production, development of renewable-energy solutions, etc.

The Chamber believes that a private-sector steering committee comprised of representatives of a number of organizations could do a good job at prioritizing the allocation of carbon-pricing revenues. Such a committee would work to identify and prioritize the allocation of carbon-price revenues to move Yukon businesses and individuals from fossil-fuel consumption to the use of renewable energy solutions.

Therefore, be it resolved that:

1. The Yukon Chamber of Commerce and the business community recognizes that

- fossil-fuel consumption needs to be reduced to address the realities of climate change;
2. Businesses are challenged by additional taxes unless carbon taxes replace business and income taxes;
 3. The Northern territories are disproportionately impacted by, and face more challenges in their ability to respond to, the implementation of carbon pricing compared to southern Canada;
 4. In recognition of point 3 (above) the Yukon Chamber supports the execution of an impact study, in alignment with the effort identified in the “Action on Pricing Carbon Pollution” section found on page 73 of the newly-released “Pan Canadian Framework on Clean Growth and Climate Change” document. Furthermore, the Chamber believes that this work should be undertaken by a non-governmental organization (the Yukon Chamber would like to undertake this effort) to assess the implications of carbon pricing in the territory, on its economy and on the business community, and to assess the implications of carbon pricing in Canada on the cost of operating businesses in the Yukon;
 5. An apolitical, professionally managed third-party Yukon Green Energy Trust should be established to manage any carbon-tax proceeds, rather than ceding them to the Yukon government to manage and allocate; and
 6. Research should be undertaken to explore whether a cap-and-trade approach might be implemented in the Yukon, exploring whether the territory could be a net contributor (i.e. seller of GHG credits) of the trade aspect.

If the Yukon government is unable or unwilling to advocate for these approaches to the Federal government, then at a bare minimum

THE CHAMBER RECOMMENDS

- Any revenues derived from a Yukon carbon tax should be specifically dedicated to business-orientated energy solutions and programs that reduce the need for importation of fossil fuels into the Territory and, where possible, to encourage the switch to renewable energy solutions; and not flow into general territorial government revenues;
- Any carbon-tax revenues should be spent in the Yukon and not on national broad-based research projects;
- An apolitical, independent and professionally managed third-party Yukon Green Energy Trust should be established to manage any carbon tax proceeds, rather than ceding them to the government to manage and allocate;
- Any carbon tax revenues should be spent entirely on reducing carbon emissions as intended, and targeted to projects with the most cost-effective and productive greenhouse-gas-reduction solutions;
- Any carbon tax should only be implemented if there are viable solutions available to businesses and individuals to adopt a less fuel-consumptive approach that would allow them to avoid paying the tax;
- Any carbon-tax redistribution should be visible (e.g., not hidden as a income tax rebate, as in BC), transparent and spent in the Yukon; and
- Energy solutions and programs funded by the carbon-tax revenues should prioritize reduction of fossil-fuel consumption.

ADDENDUM: BACKGROUND BRIEF

Origin of Carbon Pricing

Carbon pricing is the method favored by many economists for reducing global-warming emissions, by charging those who emit carbon dioxide (CO₂) into the atmosphere. That charge, called a carbon price, is the amount that must be paid for carbon pollution.

Carbon pricing aims to solve the economic problem by putting a cost on carbon pollution that forces the consumer and the entire supply chain to now consider the economic impact of the carbon content of their good or service. CO₂, a known greenhouse gas, is a well-documented negative externality that arises from the consumption of fossil fuels. A negative externality is a detrimental byproduct that is not explicitly considered by the economic agent that causes the externality to be produced.

Economic theory states that the central planner (government) should aim to levy a charge equal to the social cost of the production of such externality on those who are failing to price in the negative externality. In other words, the carbon tax should be set so as to offset the impacts that others experience from the emissions. In practice, it is very difficult to quantify such negative impacts.

One study (Shindell, 2015), prices such pain impacts at \$1.66/liter for diesel, which is more-than 50% higher than the average cost of diesel in the Yukon. Other sources would price such pain impacts as low as \$.01/liter. Clearly, there is a lack of consensus as to what the fair price of carbon emissions impact ought to be, and this is consistent across carbon markets (where they exist or where they are explicitly discussed) globally. On the other hand, there is global agreement that carbon emitters are in general ignoring a negative externality of their activities, and thus there is an argument for a central planner to step in and levee a charge on carbon emission.

Approaches to Carbon Pricing

Carbon pricing usually takes the form of either:

- A carbon tax or,
- A requirement to purchase permits to emit, generally known as cap-and-trade.

From a theoretical standpoint, there is no reason to believe that either system will do a better job of reducing emissions, for both systems can provide a deterrent to consumers of fuel. The main difference is that a carbon tax puts tax revenues in the hands of the Government, and as a result the effectiveness of a Carbon Tax also depends on how those tax dollars are managed. Another key difference is that a cap-and-trade system lets the market determine the price of carbon, meaning that the penalty associated with the production of carbon is variable. In contrast, a carbon tax provides a fixed and predictable deterrent against the consumption of fuel.

Recently (2013–14) economic opinion has been shifting more heavily toward taxes (as opposed to cap-and-trade) as national policy measures for the purpose of international climate negotiations. – *Wikipedia article on Carbon Pricing*

British Columbia introduced a carbon tax in 2008 and it now stands at \$30 a tonne, adding an extra 6.67 cents to each litre of gasoline and 7.67 cents to each litre of diesel. In August, the province said it would stick to that price until other jurisdictions catch up.

Alberta announced it will have a \$20-per-tonne carbon levy in place next year, rising to \$30 a tonne in 2018. For both provinces, the tax applies to gasoline, diesel, natural gas and propane.

Quebec joined California in a cap-and-trade carbon market in 2014, and Ontario will/is trading in the same market. Cap-and-trade systems set jurisdiction-wide limits on emissions and then establish a carbon market, within which industries deemed to be the major emitters are allotted permits for emissions that they can buy and sell, with the costs passed on to consumers.

Provincial governments that have implemented carbon taxes receive the revenue, and the federal government said it will also return funds from any federally-imposed carbon tax to the jurisdiction of origin and it is or will be up to that jurisdiction to decide what it does with that revenue

British Columbia's system is designed to be revenue neutral, meaning the government will take in no extra money from the tax and instead return it through tax cuts and credits. Alberta's system returns some of the costs to lower-income consumers in the form of a rebate, and small business taxes have been reduced from three per cent to two per cent to help offset costs. But about two-thirds will go toward spending more generally on diversifying the economy, including on renewable energy, transit infrastructure and energy efficiency measures.

The Canadian Chamber of Commerce has adopted a position in favour of Carbon pricing, passing the "Greenhouse Gas (GHG) Emission Reduction through Economic Instruments" policy in 2015.

They summarized:

"G7 leaders met on June 8, 2015 notably to discuss climate change and committed themselves to various objectives, including:

- Hold the increase in global average temperature below 2°C;
- Reduce global GHG emissions "in the upper hand" of 40 to 70% reductions by 2050 compared to 2010 through "a global response";
- [Do their] part to achieve a low-carbon global economy in the long-term;
- Adopt an agreement at the Paris Conference this fall.

In the past, Canada committed itself to various targets, including limiting GHG emissions to 555 megatons in 2012, under the Kyoto Protocol, 610 megatons in 2020 under the Copenhagen Agreement and, on May 15, 2015, to a 515 megaton limit in 2030. The Kyoto target for 2012 has been largely surpassed (715 megatons according to the latest revision, or 160 megatons over target or +29%) whereas the targets of Copenhagen and last May are not likely to be met at the current rate – the latest results for 2013 show another increase in emissions to 726 megatons.

A growing number of Canadians already see goods and services having a carbon component or being transported, having a price on carbon. This is the case in British Columbia, with a carbon tax, and in Quebec with a royalty paid to finance a cap and

trade system under the Western Climate Initiative (WCI). Ontario announced on April 13, 2015 that it intends to join the WCI along with Quebec and California. Consequently, these provinces have taken the path of innovation and sustainable development.

The Canadian Chamber of Commerce network is a longstanding supporter of carbon pricing, provided that that all economic players are subject to a similar carbon tariff, regardless of the economic instrument used, whether it is a carbon tax or a cap and trade system. Such coverage is essential to maintaining a competitive and level playing field. It is therefore desirable for other provinces to follow the lead of British Columbia and Quebec in combating climate change...

Canada's chambers of commerce can be leaders and actors of change and promote this commitment throughout the country. Therefore, there are plans for the chamber of commerce movement, everywhere in Canada, to join their sustainable development sector in order to urge the federal government to adopt a Canadian strategy for GHG emission reduction with a target, and measures and mechanisms to reach this target."

The Canadian Chamber of Commerce Recommendations were:

That the federal government:

1. Adopt an approach and mechanisms to combat climate change in order to establish and reach a GHG emission reduction target by 2050.
2. Work with the provinces and territories to:
 - a. Adopt carbon pricing mechanisms that will help realize Canada's international commitments to reduce GHG emissions. The selection of these mechanisms must take into consideration the actions of competitor jurisdictions and the impact on Canada's global competitiveness.
 - b. Ensure revenue collected from carbon pricing mechanisms directly facilitates businesses' transition to a lower carbon economy – it should not go into general revenues. Further, the allocation of that revenue should be objective and transparent.
 - c. Adopt policy instruments that sufficiently price the negative externalities associated with greenhouse gas emissions to achieve this target.

Effects of Carbon Pricing on Yukon's Economy

With the exception of modest amount of game-meat, fish and farm produce and firewood harvested locally for heating, virtually everything consumed in the Yukon comes from a long supply chain, often, 1000 to 2000 km away, or more, That is high in carbon content due to road transportation and little or no rail or boat access. At the same time, with the exception of mineral ores (when commodity prices are favourable and mines are in operation), the territory exports very little. The other northern territories are in much the same position, and so as a whole, the North is disproportionately adversely affected by carbon pricing, the economy bearing significant cost for everything imported, while deriving only nominal gain from exports.

As well, the Yukon (and North) with its colder, darker and longer winters, isolated (not connected to the southern electrical grid) and limited electrical transmission infrastructure and large distances between population centres, is more reliant on fossil

fuels for heat, light and transportation than those living in large population centers in southern Canada.

Carbon pricing will cause prices to go up for carbon intensive products like fuel for our vehicles and heat and (non-renewable) power for businesses and homes. The intent is to encourage a reduction in the use of fossil fuels. The less a business or home used the less they'll pay, but the option to reduce, for example, building heating requirements may be limited by capital-intensive retrofits.

How much heating costs will go up with a carbon price will depend on how a business or home is heated. If it is with hydro-powered electricity, the carbon tax won't have an effect. If it's with natural gas or heating oil, it will increase. For example, in Alberta, where most homes are heated by natural gas, it will mean a significant increase. Under the current carbon plan, in 2018, there will be a tax of \$1.51 a gigajoule (1 gigajoule is 277.8 kWh, so \$151 is equivalent to 0.54 cents per kWh). In October, the price charged to Albertans for natural gas heat was only \$2.66 a gigajoule (0.96 cents per kWh).

In B.C., the tax was \$1.49 a gigajoule. The Alberta Treasury Board and Finance have confirmed a carbon levy rate of \$30/tonne will add 8.03 cents per liter of diesel or home heating fuel and 6.73 cents per liter of gasoline. Again all these number would increase by two-thirds to capture the cost of a \$50 per tonne carbon tax. – *“What a carbon price means for consumers” – CBC News, Oct. 4, 2016*

When the carbon price reaches \$50 per tonne in 2022, which will effectively add 11 cents per litre to the price of gasoline (and about \$12.8 cents per litre of diesel).

Prices will also rise for food and other retail goods (by 0.25 cents per pound to perhaps 1 cent per pound), since they are almost exclusively transported 2000km to the Yukon by diesel-burning tractor trailer units.

As for the cost of electrical power, given that 95%+ of Yukon electricity is renewable, it's nominal. However, if Yukoners currently heating with fossil fuels were to switch to electric heating, demand of electricity would exceed the present supply of renewably generated electricity. Until new renewable electricity generating facilities are built, this will require Yukon Energy to run diesel or natural gas generators more often, partly negating the benefit of switching to electric heating in the short term. In the longer term it could mean additional new sources of electricity would be found using renewable energy sources to meet this new electrical demand.

Effects of Carbon Pricing on Yukon Businesses

Alberta and B.C. have several exemptions to the tax, such as those that apply to the agricultural sector and some air travel. Large emitters in Alberta, including oilsands operations, fall under a different system that sets specific emission reduction goals. The federal government said any carbon pricing should minimize competitiveness impacts and avoid simply driving emitting industries abroad, particularly for trade-exposed sectors.

Based on the above cited precedents, exemptions approaches should potentially be explored to mitigate negative impacts on Yukon's aviation and the resource sectors,

based on both the Alberta oilsands precedent, and the federal government edict related to trade-exposed sectors, i.e., mineral prices the commodities market making it impossible for the mining sector to pass on incremental costs to the customer.

An outcome of the December 2016 Premier's meetings appears to be that the newly elected Yukon Government appears to cede Yukon carbon tax collection to the Federal government.

A carbon pricing regime may also exacerbate a growing wealth gap between Yukoners employed by the public sector vs. those employed by the private sector. Already Government employment is the largest single sector of the Yukon economy, contributing ~40% of the Territory's GDP. This sector is also uniquely (with the possible exception of a few large private sector businesses) insulated from the impact of any carbon tax, as any cost of living increases experienced by this sector will largely be mitigated by cost of living adjustments factored into the next round of salary negotiations for government employees (the current agreement expires in 2018). There may also be a few large private sector employers who employ a cost-of-living adjustment, but for the vast majority of businesses, this will not be the case.

This may make carbon pricing uniquely punitive for the private sector that comprise the other ~60% of the territory's GDP contributors. Half of that is the resource sector, which, due to the commodity pricing on international markets, is unable to pass through the incremental cost of a carbon tax. Such a tax would have a negative impact on the mining sector, and make the Yukon a less-attractive place to invest than a challenging regulatory environment has already made it. Mining-related GDP would thus likely decrease.

The remaining portion of the private sector, comprised primarily of the tourism, retail and service sectors, which will pass through the incremental cost to the end consumers. There is the risk of reduced levels of tourism, as airfares, hotel costs and other tourism and service-related businesses have to raise their prices.

As noted above, Government employees will be insulated from the effect by negotiated wage increased that reflect cost of living adjustments. Yukoners employed by the private sector will bear the burden of this tax, resulting in less economic activity by these employees.

Approaches to Carbon Pricing in the Yukon

The choice of pricing approach, a tax or cap-and-trade, has been controversial. A carbon tax is generally favored on economic grounds for its simplicity and stability, while cap-and-trade is often favored on political grounds.

Because cap-and-trade programs typically target large emitters such as heavy manufacturing and fossil fuel electrical power plants, this approach appears to be inappropriate for the Yukon.

Another consideration is that due to the significant amount of both diesel-powered truck traffic and rubber-tire tourist traffic passing through the Yukon to and from Alaska, Yukon

fuel purchases by these vehicles would result with additional carbon tax revenue for the Yukon.

In summary there are likely to be net negative impacts on Yukon businesses and Yukoners because:

- The distance of the Yukon and North's populations from their source of virtually all goods;
- The lack of alternate, lower fossil fuel, transportation infrastructure solutions to transport goods from the south;
- The relative volume of goods imported into the territory and exported from the territory; and
- The Yukon and North's disproportionately higher reliance on fossil fuels for heat, light and transportation in a cold, dark and distant portion of Canada,

All of the above elements create a situation in which alternatives to reduce or avoid the pricing impacts are more limited and/or more expensive in the North, and to the degree that alternatives are unavailable, a carbon price may be just an additional tax burden for Yukon and Northern businesses and individuals to bear.