



Business Council of British Columbia
Submission on
Province of British Columbia's
Discussion Paper –
Climate Leadership Plan (July 2015)

September 2015

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– Climate Leadership Plan (July 2015)**

HIGHLIGHTS AND RECOMMENDATIONS

Highlights

The attached document contains the Business Council of British Columbia's response to the Province of BC's July 2015 Discussion Paper - Climate Leadership Plan.

British Columbia is a global leader in implementing concrete action to manage and mitigate the impacts of climate change. No other province or state in North America has done more, particularly in the area of carbon pricing. BC can also claim success for having met its goal of achieving "carbon neutral" government. Significant steps have been taken with respect to greenhouse gas emissions reporting and compliance, new energy efficiency measures, low-carbon fuel standards, sustainable forestry, and growing the renewable energy sector. BC has an electricity sector that is 94% clean and the envy of most jurisdictions worldwide that are looking to shift toward lower-carbon fuels in the power sector. With a largely carbon-free electricity sector and an existing carbon tax set at \$30 per tonne of CO₂e, BC has already harvested much of the "low-hanging fruit" in terms of reducing GHG emissions. As a result the province has few low-cost GHG abatement options available at the present time. Absent significant and near-term technological advances and strong moves on carbon pricing by neighbours and trading partners, British Columbia needs to be pragmatic and modest in pursuing further climate policy action in the next few years.

British Columbia business leaders want to be fully engaged in a collaborative process of determining what additional measures can be implemented that preserve BC's climate leadership position while ensuring that our small trade-oriented, natural resource-dependent economy can successfully compete in the global marketplace. Business Council members are willing and able to offer their knowledge and expertise to assist the province in the next stage of climate policy development.

Recommendations

- Keep the BC carbon tax in place at the current level over the balance of the decade. Post-2020, policy-makers should review the tax in light of actions by other jurisdictions to narrow the existing gaps with BC in carbon pricing.
- Revise and replace the province's 2020 emissions target with a more realistic medium-term target.
- In framing the next stage of climate policy, be pragmatic and put BC's contribution to world, North American and global GHG emissions in context.
- Conduct a cross-cutting analysis of existing policy- and regulatory-driven cost burdens facing industry in British Columbia before proceeding with any new fiscal or regulatory measures that affect the cost of operating and investing in a business in British Columbia.
- Pursue market based mechanisms as preferred tools for fostering less carbon intensive energy systems in the transportation and building sectors and also at the community level.
- Ramp up the evaluation of transportation options, including dedicated trucking lanes and routes, road pricing for all drivers, transportation electrification, and increased collaboration and cost sharing with municipalities on community design and public transit.
- Leverage and support BC-based firms with export aspirations with respect to LEED innovation and other areas of technical innovation where the province has commercial strengths.
- For the next stage of BC climate policy, explore, and where appropriate utilize, the full suite of tools, including financial incentives, public sector procurement, industrial policy, post-secondary education and research, programs to support the commercialization of home-grown intellectual property, and other policies to stimulate technological innovation.
- Consider establishing a BC Centre of Excellence in Renewable Electricity.
- Step up efforts to encourage the development of pan-Canadian approaches to carbon pricing and other elements of climate policy, by working more closely with other provinces.
- Pursue discussions with Alberta on opportunities to expand trade in energy, particularly electricity, and on ways to strengthen cooperation in areas such as carbon pricing, GHG reporting, the role and use of offsets, energy efficiency standards, and other aspects of climate policy.
- Develop a BC strategy on cap and trade, in anticipation that this may become the predominant regime for managing and pricing industrial greenhouse gas emissions in North America

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The Business Council of British Columbia is pleased to submit these comments to the Provincial Government and the Climate Leadership Team in connection with the work under way on BC's new Climate Leadership Plan.

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, 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. A number of our member organizations will be providing more detailed input on specific aspects of the Discussion Paper that are relevant to them.

At the outset, the Business Council wishes to acknowledge the progress British Columbia has made in staking out a leadership position on many elements of climate policy. Within North America, no other province or state has done more on carbon pricing, or had greater success in reducing the carbon footprint of the broad public sector. British Columbia has also taken significant steps in areas such as greenhouse gas emissions reporting, new energy efficiency measures, low-carbon fuel standards, sustainable forestry, and growing the renewable energy sector. Recently, the government has been working to develop a liquefied natural gas (LNG) industry in the province, in order to provide new market outlets for BC's vast natural gas reserves. Some see this as contrary to the province's commitments on climate change. We respectfully disagree. Establishing a liquefied natural gas industry in BC, particularly given the stringent environmental standards and best-in-class regulations that the province is known for, can support the shift to a cleaner **global energy system** – a system in which natural gas is set to feature more prominently in the coming decades under all conceivable energy supply and demand projections.¹ Natural gas produces only half of the carbon emissions that result from using thermal coal to generate electricity.

¹ International Energy Agency, [World Energy Outlook](#), 2014.

In the discussion below, we first focus on issues related to carbon pricing, industrial activity and BC's competitiveness, which form part of the backdrop for the government's July 2015 Discussion Paper. We then briefly turn to a number of other topics raised in the Discussion Paper, including the impact of transportation, the built environment, and local communities on emissions of greenhouse gases (GHGs). In the final section of this submission, we note the environmental and economic benefits that could be realized through closer collaboration and coordination with other provinces and levels of government in addressing climate change.

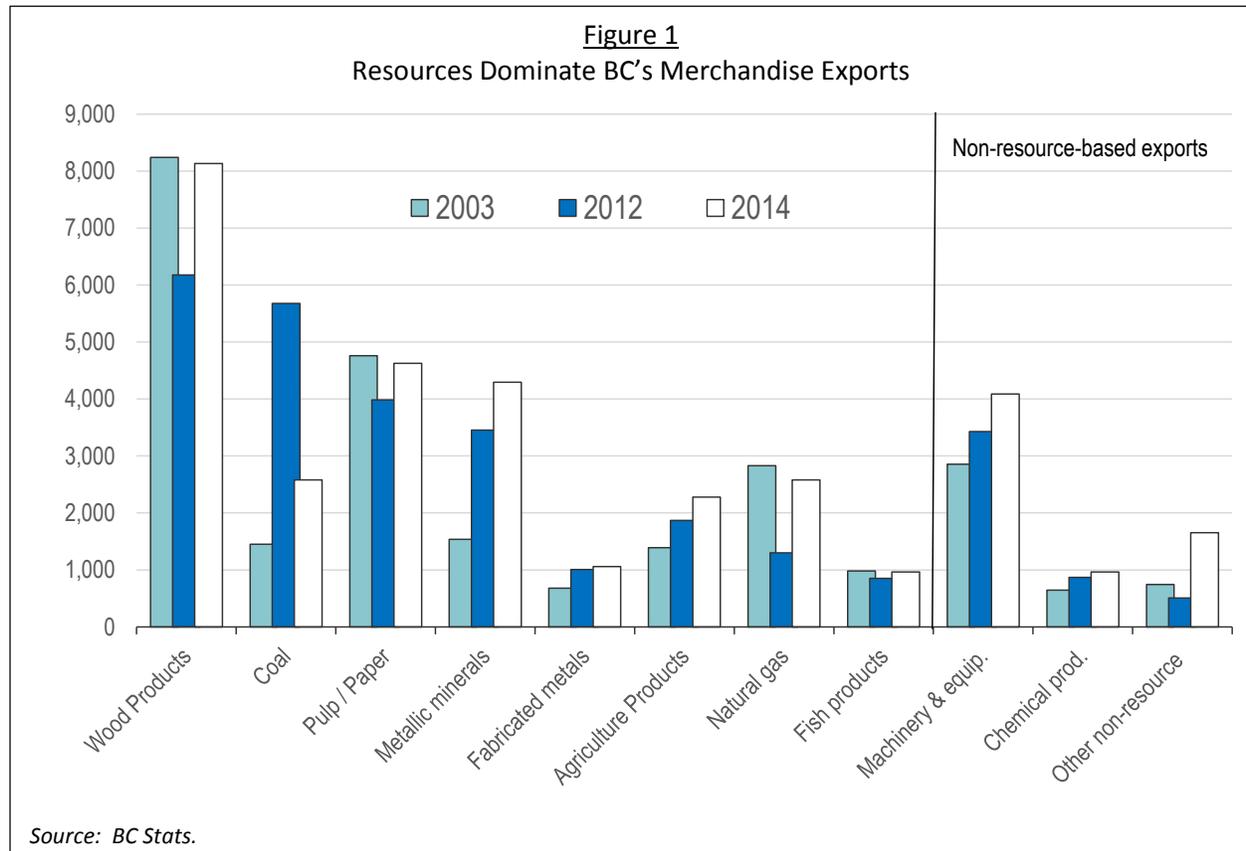
Carbon Pricing, Industrial Activity and Export Competitiveness

For context, in 2012 the Business Council's [Submission on the Provincial Carbon Tax](#)² summarized many of the business community's high-level views on the development and implementation of climate policy in the province. Much of the content of our 2012 submission is still valid today. In particular, it is clear that the failure of other North American jurisdictions to enact broadly-based carbon pricing schemes continues to leave British Columbia somewhat isolated, and has placed several of our leading export industries at a competitive disadvantage owing to higher tax-inclusive fossil fuel costs in BC. Our concerns on this point have become more pressing against the backdrop of a weak global economy and slumping commodity markets. There would appear to be few advantages for a small, natural resource-based economy like British Columbia from moving well ahead of competing jurisdictions in carbon pricing or other elements of climate policy. While we are encouraged that some other provinces and US states are committing to more substantive carbon policies, to date no other jurisdiction in North America has legislated an economy-wide carbon levy similar to the one in British Columbia. Nor, to our knowledge, has any other province or state managed to achieve "carbon-neutrality" in its public sector – another goal that BC has met, one that merits greater emphasis in public discussions of the province's climate policy accomplishments.

British Columbia's business leaders are supportive of actions to protect the ambient environment and also to address greenhouse gas emissions. As noted in the Discussion Paper, the transportation sector and the built environment are two areas where further measures to tackle GHGs may be warranted. As they move to refine the elements of a "Climate 2.0" strategy, policy-makers must be cognizant of the starting point for British Columbia which, through our existing energy mix and infrastructure assets, has reduced the

² <http://www.bcbc.com/submissions-presentations/2012/submission-bcbcs-submission-to-the-provincial-carbon-tax-review>

carbon-intensity of economic activity. Policy-makers also must pay attention to the evolving competitive landscape facing BC’s major “trade-exposed” industries – notably resource-based industries and manufacturing, which together supply roughly three-quarters of the province’s merchandise exports (Figure 1).³



British Columbia has been a North American (and in some respects a global) leader in climate policy since 2008, even though the province is responsible for 0.002% of world GHG emissions⁴ and 9% of Canadian emissions.⁵ From today’s perspective, the existing target to bring BC’s emissions 33% below 2007 levels by 2020 – or an additional 18 Mt CO₂e reduction from 2013 – looks increasingly unrealistic. Much of the “low-hanging fruit” has been harvested, not least because BC has been operating with by far the steepest carbon price anywhere in North America. Trying to secure additional significant near-term cuts in emissions is likely to impose costs on our economy, including on industries that account for the bulk of

³ These consist of export-oriented industries as well as industries that compete with foreign imports in the Canadian market.

⁴ BC Ministry of Environment, *British Columbia Greenhouse Gas Inventory, 2013*; Environment Canada, *Canada’s Greenhouse Gas Inventory, 1990 – 2013*; United Nations Framework Convention on Climate Change, *Greenhouse Gas Inventory Data*.

⁵ Canada produces ~1.6% of world emissions, a proportion that has been trending lower over time.

BC's export earnings. **Stated differently, the reality is that British Columbia, circa 2015, has very few low-cost GHG abatement options available**, particularly options that hold the promise of bringing forth meaningful incremental reductions in domestically-generated GHG emissions over the next 5-10 years. This point should be taken into account by policy-makers and in the work of the Climate Leadership Team. Furthermore, BC's stated 2050 goal, to bring emissions 80% below 2007 levels (or an additional 31 Mt CO₂e beyond the existing 2020 target), depends on the prospects for major advances in technology across all segments of the energy system. The Business Council recommends that the province's 2020 GHG reduction target be revised and replaced with a more realistic medium-term target. Whether the 2050 target is achievable largely hinges on the pace and magnitude of future technological innovation, a matter over which the province itself has little direct influence.⁶

Overall, the Business Council believes BC's interests are best served by a pragmatic climate policy, one that reflects the province's current status as a relatively low-GHG emitter within North America and looks primarily to technology-based solutions to enable progress toward a lower-carbon economy over the medium- and longer-term. The province's approach must recognize the central role of trade-exposed and relatively energy-intensive industries⁷ in sustaining GDP, jobs and exports in BC's small open economy.

British Columbia can and should be part of the global-scale technological innovation that is necessary to support the transition to a lower carbon economy. Even with modest contributions, BC can gain if we focus on areas where we have competitive advantages and existing commercial strengths, notably in natural resource sectors and the land-based economy, where the province is recognized for innovations and leading-edge practices in electricity, sustainable forestry, natural gas development, mining, and the establishment of parks and protected areas. British Columbia should be doing more to market these successes and incorporate them into the province's unique brand.

British Columbians should be proud of what the province has accomplished on the climate change front. The fact is that some 94% of the electricity produced in BC comes from carbon-free sources – one of the highest shares among all OECD jurisdictions. Electricity is a sector that most other provinces/states are counting on to deliver a majority of their GHG reductions, through “fuel-switching” from coal and oil to natural gas and renewables. That option is not available to BC. Again, this reinforces the point that

⁶ “Peering into Energy's Crystal Ball,” *McKinsey Quarterly*, July 2015.

⁷ These can be defined as BC industries in which energy inputs make up at least 15% of the combined cost of producing goods and transporting them to tidewater or to the Canada-US border.

compared to other jurisdictions, cutting emissions in BC is more difficult technically, as well as more expensive based on the cost of each incremental tonne of carbon dioxide that is abated.

Electricity in BC is cleaner today and will continue to be so in the future, by a substantial margin, than in most other Canadian provinces and virtually all American states.⁸ This key point should be given greater emphasis in the provincial government's climate policy statements and planning.

In addition, BC has mandated low carbon fuel standards,⁹ and has worked to achieve a carbon neutral provincial public sector. In short, even though BC is a relatively low GHG-emitting jurisdiction with an essentially carbon-free electricity sector, we have done more than most other provinces/states to address GHG emissions. Given the steps already taken, future government policy and regulatory decisions in relation to climate change matters need to be aligned with BC's economic and environmental position in North America as well as the province's industrial structure and export base.

Overall, competitiveness continues to be a key concern for many Business Council members, especially those operating in "trade-exposed" and/or energy-intensive sectors of our economy.¹⁰ To state the obvious, the province's economy relies on trade, and a sizable fraction of GDP derives from or is strongly affected by trade with outside markets. The BC industries involved in international commerce tend to be **price takers** in the markets they serve – i.e., they have little or no ability to pass on higher domestic costs to their customers. From this, it follows that managing costs, including energy input costs, is critical to the success and long-term viability of these industries. Moreover, BC's trade-exposed industries operate in a world where capital and high-value business activities are mobile, with companies often evaluating a range of locations when looking to invest. Policy-makers need to be aware of the manner in which government-influenced costs, including those affecting energy, can impinge on business operations and investment decisions. When these costs escalate, it can hinder job creation and discourage the

⁸ This is true even if the ambitious electricity sector carbon reduction goals embodied in the US government's new Clean Power Plan are met by the states over the next 5-7 years.

⁹ From the evidence we have seen, it is questionable whether BC's current LCFS targets are technically feasible or economically defensible. The pace at which cleaner fuels are incorporated into the transportation system depends on the wide-scale adoption of technology and infrastructure. We support realistic targets and time-lines that do not impose undue costs on local residents and businesses.

¹⁰ Trade-exposed industries include the various segments of forestry (logging, wood products manufacturing, and pulp and paper), mining, smelting, natural gas extraction and processing, pipelines, oil refining, chemicals, cement, agri-food, and secondary manufacturing. A number of these, along with transportation, also qualify as energy-intensive industries.

investments necessary to increase prosperity and safeguard the province's ability to fund public services and programs over the long term.

Government-influenced/government-determined costs in British Columbia are continuing to escalate across many sectors, in most cases at a rate that exceeds inflation. Such costs have been marching higher in several areas: electricity prices, fuel taxes, vehicle insurance, property tax, MSP premiums, water use charges, and a host of environment-related fees. On top of this are municipal taxes, fees and levies, plus the ~\$1.5 billion increase in business capital and operating costs stemming from the restoration of the Provincial Sales Tax in 2013.¹¹

Generally, taxes and other costs related to climate policy need to be considered against this backdrop. At CDN\$30/tonne CO₂e (~US\$23/tonne CO₂e), BC's carbon tax amounts to the highest price for CO₂ in North America, and by a substantial margin; as shown in Figure 2 on the next page, it is also ~2.5 times greater than the "median" international carbon price (US\$10/CO₂e).¹² This extra tax burden on energy use in BC has contributed to an erosion of competitiveness in some industry sectors, notwithstanding the benefits that have come from off-setting tax reductions instituted as part of the government's "revenue-neutral" carbon tax shift policy. The business-related tax reductions notionally financed with carbon tax revenues have done little to assist the industries that have been placed at an economic disadvantage as a consequence of BC's decision to be an "early mover" on carbon pricing. As documented by the Ministry of Finance in the 2015 Budget, most of the fiscal room created by the carbon tax has been used to pay for i) personal tax relief, ii) tax cuts aimed at very small businesses, iii) narrowly crafted "boutique" tax incentives,¹³ and iv) the province's top-up of the federal tax credit for R&D. While these measures may have some merit, they are of little value to the major trade-exposed and energy-intensive industry sectors present in British Columbia – industries that make up a large share of the export base and play a disproportionate role in sustaining the province's high standard of living.

In some cases, trade-exposed industries have few if any feasible fuel or materials substitution possibilities. Cement is the starkest example: the industry in BC has lost ~40% of its local market to US and Asian imports since 2008, in part because of the made-in-BC carbon tax.¹⁴ Oil and gas is also vulnerable because

¹¹ The latter ranks as the biggest business tax increase in BC's history.

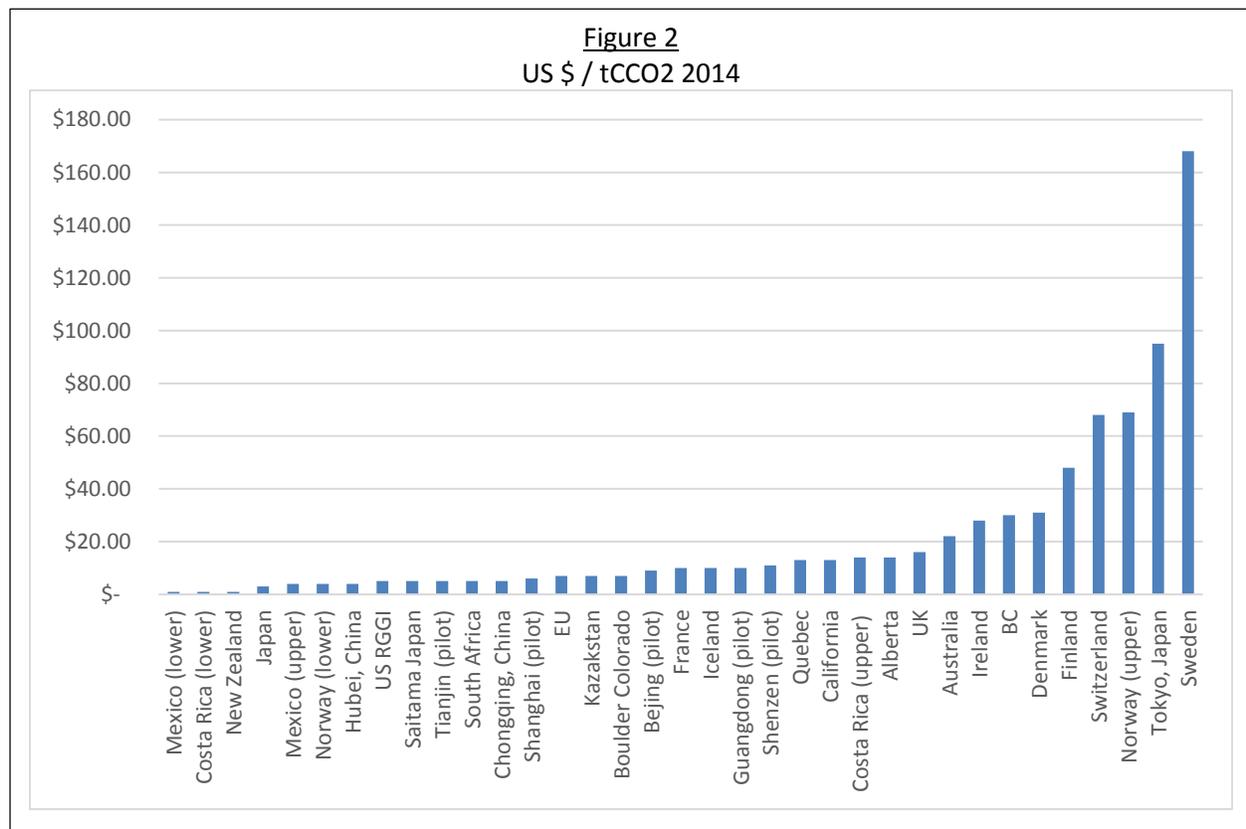
¹² Sightline Institute <http://daily.sightline.org/files/2014/11/global-carbon-programs-map-still-111714.png> and World Bank, Carbon Pricing Watch 2015 <http://documents.worldbank.org/curated/en/2015/05/24528977/carbon-pricing-watch-2015-advance-brief-state-trends-carbon-pricing-2015-report-released-late-2015>.

¹³ Notably for film production, digital animation, and international financial activities.

¹⁴ In Budget 2015, the province announced funding to help the cement industry reduce its use of carbon-based energy and materials.

of the global nature of production and the current depressed price environment. Policy decisions that further increase energy input costs for existing or new industrial activities that produce GHGs without appropriate offsets may have the perverse effect of incenting BC companies to invest elsewhere, while also boosting overall global GHG emissions as resource and industrial production migrate to regions with no or weak carbon management frameworks. All of this bolsters the argument for aligning BC’s policies, targets and actions with those of key trading partners to minimize the risk of “carbon leakage” and “free rider” problems, and create larger linked markets among like-minded jurisdictions.

The Business Council therefore opposes any further increases in the BC carbon tax over the balance of the decade. Post-2020, policy-makers should revisit the level and design of the carbon tax, based on steps taken by other provinces and states to embrace broadly-based carbon-pricing. In the meantime, as part of developing a Climate 2.0 strategy, we recommend that the government undertake a cross-cutting analysis of existing policy- and regulation-driven cost burdens facing major trade-exposed industry sectors before considering any new measures that raise production and operating costs for firms doing business in British Columbia.



Transportation and the Built Environment

Turning to two sectors highlighted in the Discussion Paper – transportation and the built environment – fossil fuels are integral to both and are embedded in a complex set of existing infrastructure assets in these sectors, including not just pipelines and refineries but also in communities in the form of the energy delivery systems that connect and move people, goods and services. Given the dispersed nature of these sectors (non-point source emissions), and the often slow pace of capital stock turnover, energy transitions to lower or no-carbon sources can be expected to occur over a prolonged period. We believe it makes sense for public policy to encourage and support capital stock turnover geared to developing a lower carbon economy, as British Columbia is doing with the carbon tax and also through regulations. And we support the use of market-based mechanisms to assist in fostering less carbon-intensive energy use in the transportation and building sectors. However, capital stock turnover and energy substitution take time, and depend on technological advances; they cannot be engineered by politicians or public servants. There are no quick solutions.

In thinking about the place of transportation in our economy, it is necessary not to lose sight of the fact that British Columbia is Canada's Pacific Gateway. Port Metro Vancouver (the largest in the country) and the Port of Prince Rupert are critical transshipment points that rely on truck and rail connections to move Western Canadian commodity products and other goods to export markets. These ports are also important entry points for imported goods. Currently, there are no viable alternatives for trucking in many areas and sectors where it is now used. In addition, vehicle standards are not a provincial responsibility. While standards have been gradually increasing and are now aligned in North America, there are few technology oriented opportunities to further reduce transportation-related GHG emissions in the near term. Looking ahead, it may be wise to consider dedicated trucking routes and lanes, road pricing for all drivers, transportation electrification (with its own set of development issues and trade-offs), and actively working with municipalities on community design and public transit options.

With respect to the built environment, smart energy efficiency standards and building codes are essential to closing the gap between what is technically possible and what ultimately gets built; this also requires consumer education, to demonstrate the return on investment. Urban densification is also a key part of any strategy to reduce the energy-intensity at the community level. Reducing GHG emissions attributable to the built environment is a long-term process that calls for an active role by municipalities. Encouragingly, Canada is ranked first among ten developed countries in new square meters of commercial

and institutional space that is LEED-certified. The local expertise that British Columbia has developed in this field can be leveraged to build more export-capable firms, especially in new construction. It must be noted that retrofitting the existing building stock is a far more costly and challenging undertaking than aiming for higher energy efficiency in new buildings.

Technological Innovation

There is another area that will be critically important as the world grapples with the challenges posed by climate change: technological innovation. Advances in technology – encompassing solar power, energy storage, and the electrification of transport, among many others – have a vital role to play in moving to lower-carbon energy systems. Governments have levers that can support and accelerate technological innovation in the domains of energy production and use, including financial incentives, procurement, industrial policy, post-secondary education and research, programs that encourage the commercialization of home-grown intellectual property, and stepped up intergovernmental collaboration within Canada and across national borders. The ability to attract capital and talent will be vital to ensuring that British Columbia remains part of the global search for technology-based solutions that enable the mitigation and management of GHGs.

In this regard, we believe the province should consider establishing a Centre for Excellence in Hydroelectric Power. BC has a great deal of experience and expertise in both large and smaller-scale renewable power, including run-of-the river projects where there have been significant advances in technology for both the design and operation of facilities. The industry in BC has worked hard to minimize the impact of projects on the environment and fish habitat, and existing hydro generation plants are subject to detailed monitoring to ensure high levels of performance.

Concluding Comments

In the lead-up to the international climate change conference in Paris later this year, British Columbia can rightly claim that the province took bold steps ahead of most jurisdictions on the path to a lower carbon future. Now, rather than implementing costly new initiatives that penalize BC businesses and residents, the province should embrace a pragmatic approach, by setting realistic goals and GHG emissions targets and re-directing its efforts to encourage increased collaboration among like-minded trading partners. More specifically, the Business Council believes BC should be working in tandem with other provinces, including Alberta, to support pan-Canadian strategies around carbon pricing as well as other policies and

regulations intended to address GHGs. British Columbia can help to provide the leadership that is needed to define and advance a sensible Canadian climate policy agenda.

A good starting point might be greater integration of BC and Alberta electricity markets. The two provinces are already interconnected, have a long history of energy trade, and exhibit almost polar opposite fuel profiles in their respective power sectors. With the addition of Site C to BC Hydro's generating system, it makes sense to ask whether there could be economic and environmental benefits from a more Western Canadian approach to reducing GHG emissions in the electricity sector. Over time, the dialogue could be expanded to involve Saskatchewan and Manitoba. Of interest, looking at the four Western provinces collectively, there are roughly equal amounts of renewable and thermal electricity produced in the region, and significant shared experience running large electric systems with multiple objectives in mind. Western Canadian cooperation, both in electricity and in energy matters more generally, is fully consistent with the commitment made by all of the Premiers at the Council of the Federation meeting in July 2015.

In this connection, BC policy-makers should take note of a recent agreement between Ontario and Quebec, in which they commit to "...explore the potential for increased trade in electricity to provide savings to Ontario ratepayers and help meet Ontario's energy needs through Quebec's clean and renewable electricity supply."¹⁵ If this concept is appealing to political leaders in Toronto and Quebec City, perhaps a similar dialogue should be pursued between Victoria and Edmonton. The timing may be especially propitious given Alberta's current climate policy review and the new government's stated desire to sharply reduce the province's reliance on coal-fired electricity.¹⁶

It is also time to ask how BC might fit within an emerging North American "cap and trade world," in light of the growing interest among governments in this approach to managing and pricing GHGs. Quebec, Ontario and California are linking up in a cap and trade market; nine eastern US states are operating a cap and trade scheme covering their electricity sectors; the US government's new Clean Power Plan is expected to stimulate further interest in cap and trade; and in Canada, it is possible that the federal government's policies with respect to carbon pricing may shift in the direction of cap and trade in the medium-term. In short, there seems to be some momentum building for cap and trade-based policies on both sides of the Canada-US border. This suggests that it would be prudent for policy-makers in BC to start thinking about the implications of this trend, particularly given that this province chose to take a different

¹⁵ News Release, "Quebec-Ontario Partnership Yields Results," September 11, 2015.

¹⁶ More than half of Alberta's power comes from domestic coal-fired plants.

path on carbon pricing. Over time, the Business Council believes there may be a case for migrating large industrial emitters in British Columbia to a cap and trade regulatory system, while keeping a carbon tax in place for other sectors of the economy, in order to reflect the negative environmental externalities associated with fossil fuel emissions.

No single jurisdiction can tackle climate change and carbon management alone. The lowest cost GHG abatement options that can have a tangible impact will only be found by collaborating with other jurisdictions and with the private sector. Business Council members have relevant perspectives and knowledge that can assist in understanding the opportunities for (and the risks around) climate action. Our members are willing and able to work with government on these issues to ensure that BC remains in the forefront on climate policy and continues to enjoy the benefits of a strong economy and a healthy environment.
