

## Carbon Taxes

### Effective policy responses to curbing growth in greenhouse gas emissions

It is essential that we develop an effective policy approach to reducing emissions that reflects diverse global circumstances and progress. Despite gains in energy efficiency, greenhouse gas (GHG) emissions will rise in developing countries as their population and economies grow. China alone will have emissions comparable to those of the North America and Europe combined by 2030. Effective public policy in Canada should promote innovation, encourage competition, set broad goals and provide a framework for entrepreneurs and innovative thinkers to achieve these goals.

While pursuing the long-term objective to minimize climate change risks, near-term objectives should include:

- Promoting energy efficiency,
- Deploying existing technologies that reduce GHG emissions cost-effectively,
- Supporting research and development of new low-emissions technologies, and
- Supporting climate research to help inform the ongoing policy response.

Carbon pricing can be an important mechanism to enhance efficiency and drive technology development and deployment for longer-term solutions, leading to emissions reductions being realized at least cost to society.

When considering policy options to address emissions, policymakers should carefully assess which approach:

- better ensures a uniform and predictable cost of carbon across the economy
- maximizes transparency to companies and consumers
- reduces administrative complexity
- better promotes global participation
- is more easily adjusted to future developments in climate science and the economic impacts of climate policies.

In our view, a carbon tax is better able to accommodate these key criteria than alternatives such as cap and trade. Properly designed it:

- is a more efficient means of reflecting the cost of carbon in all economic decisions and is therefore more transparent
- more easily lends itself to application in countries around the world
- avoids the complexity of building a new market for carbon securities
- can be implemented through the existing tax infrastructure

Importantly, a carbon tax should be made revenue neutral via tax offsets in other areas.

Combined with further advances in energy efficiency and new technologies spurred by market innovation, a well-designed carbon tax could play a significant role in addressing the challenge of rising emissions.