



Environment and Climate Change Minister Steven Guilbeault in a Hill scrum on Jan. 31, 2024. 'We propose an alternative to the existing federal carbon tax policy that can also deliver a low-carbon future consistent with our international obligations,' write Jatin Nathwani and Ann Fitz-Gerald. *The Hill Times* photograph by Andrew Meade

Here's how to get to zero-carbon emissions equitably

The increase in tax is a reinvestment in our economy for a resilient future. A small levy on current consumption can help enable long-term national prosperity. Opposition to the climate plan will subside in due course as trust in the governance structure is established and the benefits get recognized over time.

Jatin Nathwani & Ann Fitz-Gerald

Opinion



The federal carbon tax has become a major contentious issue energized by a toxic political debate. With the Conservatives' 'axe the tax' movement gaining momentum and others in tow, a crucial national goal of mitigating climate risks is in jeopardy. Worse still, Canada's reputation as a trustworthy partner in global agreements is at risk. Given the transition to a low-carbon economy will remain integral to meeting our international commitments for emission reductions, there is a hidden opportunity to foster Canadian-generated and owned intellectual property to drive new wealth creation.

Largely driven by the narrowest short-term anxieties over the cost of home heating fuels in Atlantic Canada, the demands for exemptions to help reduce home-heating costs—whether it is natural gas or fuel—have multiplied. With one exception followed by another inevitably leads to evisceration of the federal climate policy undermining the broad national support in favour of urgency and action on addressing the climate threat. We would be doing ourselves a great disservice by turning a blind eye to the emerging consequences of climate change impacts already being felt across the country. To

trade off minuscule sacrifice in the short term risks substantial future costs amounting to a true tragedy of the horizon.

When the exemptions to the carbon tax were granted on home heating fuels for households in the Atlantic provinces, others joined the chorus: "Why not us?" Exemptions, driven by considerations of affordability for one region of the country, is then perceived as inequitable distribution of burdens. While economists have advocated for the efficiency of the carbon tax, a myopic focus solely on economic efficiency has delivered an unpalatable political outcome that could sink the whole enterprise. If we can acknowledge the fundamental inequity rooted in the disparity of exemptions across regions as a legitimate concern, we need to ask: Is there an alternative pathway to a zero-carbon economy that is equitable, fair, and inclusive?

We propose an alternative to the existing federal carbon tax policy that can also deliver a low-carbon future consistent with our international obligations. A broader tax base is necessary to ensure distributional impacts across geography, social and economically diverse communities, and low-income households are fully addressed.

An increase in the GST by two per centage points is an alternative to the existing carbon tax. Its merit lies in the principle of equity. A tax on total consumption distributes the burden fairly among all Canadians in all income categories other than the lowest income households and individuals. For the latter group, measures are already in place through refunds of the GST and exemptions on essential items such as food, school textbooks, health care items, and critical necessities are already included in the tax.

A narrow focus on carbon pricing of emissions is not the only credible option for dealing with a multi-faceted complex problem affecting industry and households. The two-percentage-point increase in the GST will generate approximately \$15-billion in revenue increasing every year with a growing economy. If the revenues are designated exclusively to the purpose of managing the climate risk and leveraged with private sector capital, then a robust annual investment program of \$30-billion to \$40-billion can effectively drive the change. A tax on consumption has limited impacts—if any—on debts and deficits.

The cold political reality that must be confronted is that there is limited or no enthusiasm for increased taxes of any kind at any time. For public acceptability, the revenues generated must be "ring-fenced," and its use directed with a clear purpose: mitigation of climate risk and costs.

To minimize the opposition to an increase in the GST, we propose a governance structure—fully accountable and auditable—to safeguard the GST revenues exclusively for carbon emission reduction investments. Legislated emission targets and fixed greenhouse gas reduction levels can provide clear benchmarks for monitoring success. Akin to swallowing the "Buckley's mixture"—unpleasant as it maybe—over time, public acceptance will grow as tangible evidence of success becomes clearer. Public acceptability hinges critically on providing the confidence that a transparent and effective governance and management system exists to prevent short-term political gains from undermining long-term objectives. From a citizen's perspective, clarity of purpose helps answer the question: "How is the government going to use my 'hard-earned' income?" The imbroglia over the current federal carbon tax is not only about affordability, but also about equity, and the lack of a clear 'line-of-sight' from tax to tangible achievements.

The transition away from fossil fuels is within reach, particularly in the transport sector, where electric mobility—in all its forms—is approaching self-sustainability. Major cost reductions have spearheaded an exponential adoption of EVs, and additional cost reductions are on the horizon. A strategic use of the GST investment pool could expedite the necessary infrastructure to reduce barriers to adoption. Heat pumps, as seen in Norway and other European Union countries, offer a cost-effective solution for displacing natural gas and fuel oil in homes. Two major sectors—transport and buildings—can be decarbonized cost effectively in a relatively short period of time. The difficult-to-decarbonize challenges of the industrial sector and other areas of the economy offer vast potential for new enterprises and deployment of new technological solutions, served by Canadian-owned IP, can be enabled through the leveraged investment pool that draws from re-directed GST funds.

The increase in tax is a reinvestment in our economy for a resilient future and to achieve this, a small levy on current consumption can be a necessary enabler of long-term national prosperity. Opposition to the climate plan will subside in due course as trust in the governance structure is established, and the benefits get recognized over time.

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