

INTERNATIONAL SECONDMENT: FINAL REPORT

OFFICIAL VISIT TO THE GOVERNMENT OF BRITISH COLUMBIA (CANADA) FUNDED BY THE
CLIMATE GROUP (UNDER 2 COALITION)

FUTURE FUND

23 & 24 OCTOBER 2019

GRANT NUMBER: UC/FF/2019/009

1. Purpose

To provide The Climate Group the Under2 Coalition- Future Found with a brief overview of the official visit by Mr. Carlos Murillo and Ms. Karen Aguirre to the Government of British Columbia, visiting the cities Victoria and Vancouver, from the 23rd to the 25th October 2019. The main purpose of the visit was to peer learn on climate change adaption, resilience, environmental taxes and how it complements to the strategy of climate action.

2. Background

- In Latin America, only Mexico (since 2014) and Chile apply a carbon tax. Studies indicate that, in the case of Mexico, the implementation of the tax would have a negative effect on the GDP, so that no fiscal revenue reuse policy could be applied. In this case, the negative impact on GDP increases, as the tax level increases.
- The results are associated with the fact that Mexico belongs to the OECD and therefore, the negative effect has it associated with this coefficient in this regard, so they should be taken with caution.
- Mexico is considering reducing the tax rate through the use of carbon credits.
- The application of a carbon tax should be considered (fundamentally) in the context of an Environmental Tax Reform (RFA in Spanish) (Ekins, 2009; Bachus and Cao, 2011) defined as a reform to the national tax system where there is a change in the tax burden of conventional taxes, such as those on labor or capital, towards activities that harm the environment (EEA, 2005).
- The RFA should be understood as a change in the tax structure, and not as an increase in taxes.

- In Latin America, the RFA can be based on the implementation of a carbon tax and the reuse of tax revenues by reducing taxes on productive factors and even contributing to generate a social protection system.
- For an RFA to be effective, the design of the instrument is crucial, that is, the level of environmental tax must be adequate, and the proposed tax reuse scheme must maximize the benefits.
- A double dividend must be generated: contributing to meet the challenge of climate change and promoting economic growth

Environmental taxation and the challenge of “green growth”: changing the tax burden in favor of environmental-related taxes

- Environmental taxes are a type of economic instruments to address environmental problems. They are designed to internalize environmental costs and provide economic incentives for people and businesses to promote ecologically sustainable activities.
- The Organization for Economic Cooperation and Development (OECD) believes that the wider use of environmental taxes or other pricing instruments, such as emissions trading systems, is one of the most efficient and effective ways of promoting ecological growth. Environmental-related taxes increase the cost of polluting products or activities, which discourages their consumption and production, regardless of whether this was the purpose of the tax or not.
- Pricing instruments¹:
 - Promote broad-based action to reduce environmental damage at the lowest cost and should be a central pillar of green growth policy.
 - Provide incentives for greater efficiency gains, green investment and innovation and changes in consumption patterns.
 - The greater or more effective use of environmental-related taxes can drive growth-oriented reform by driving away the tax burden of more distorting taxes (for example, in corporate or personal income).
 - Contribute to fiscal consolidation.
- Environmental related taxes in Mexico:

¹ OECD (2015), Towards Green Growth: Tracking Progress, OECD Publishing, Paris, <https://doi.org/10.1787/22229523>

Country	As a share of GDP, %, 2016	As a share of total tax revenue, %, 2016	Per capita, USD, 2016
Mexico 	 1.61	 9.53	 261.35

Tax revenues related to the environment as part of the gross domestic product (GDP) of each country.

Tax revenues related to the environment as part of the total tax revenue of each country.

Tax revenues related to the environment per inhabitant. US dollar, converted to the purchasing power parities of 2010.

Example of environmental tax: energy use tax

- Emissions from energy use cause environmental and health damage and also contribute to climate change. By charging for these damages, energy use taxes can reduce excessive emissions, while increasing revenues that can be used to fund vital government services.
- Well-designed energy tax systems encourage citizens and investors to favor clean energy sources over pollutants. In particular, excise taxes on fuel and carbon are simple and cost-effective tools to curb dangerous climate change. Energy and carbon taxes also contribute to limiting the damage to health caused by local pollution.
- Obstacles:
 - Fuel taxes for vehicles are relatively high, but rarely fully reflect the cost of environmental damage, especially with some road transport sectors that offer preferential rates.
 - Taxes on coal, which is behind almost half of the CO₂ emissions of energy, are zero or almost zero in most countries.
 - Taxes are often higher for natural gas, which is cleaner.
 - For international flights and shipments, fuel taxes are zero, which means that frequent long-distance travelers and freight forwarding companies do not pay their fair share.

3. Objectives

- To learn from the Government of British Columbia's experience with policies and financial strategies of climate action and resilience, in particular its carbon tax and the accompanying tax change - increased from \$ 10 to \$ 30 per ton - , in implementation since 2008.
- Generation of local capacities for the creation of effective fiscal instruments that will allow the collection of financial resources to be directed for the implementation of climate actions (mitigation and adaptation), with the collaboration of key sectors of the Yucatan State government.



- The visit will also provide the opportunity for the governmental agencies involved to create further cooperation schemes in relevant topics and strategies for both the Secretariat of Sustainable Development (SDS in Spanish) and the B.C. Ministry of Environment and Climate Change Strategy.

4. Meetings:

For the SDS, the two participants on all the meetings and activities graciously organized by the B.C. Ministry of Environment and Climate Change Strategy where:

- Karen Aguirre Bates – Legal Directress. Secretariat of Sustainable Development.
- Carlos Alfonso Murillo Ku - Sub-Director General of Audit and Fiscal Intelligence. Fiscal Administration Agency.

As for B.C. Ministry of Environment and Climate Change Strategy, the main person of contact was:

- Elliott Bourgeault - Senior Policy Analyst. BC Climate Action Secretariat.

ACTIVITY	ATTENDEES	KEY POINTS
City of Vancouver- Climate Emergency & Climate Action Overview <i>Vancouver City Hall, 453 W 12th Ave Sustainability Office, 7th floor, Hemlock Room (45 minutes)</i>	Matt Horne, Climate Policy Manager, City of Vancouver +1-604-673-8331 Matt.Horne@Vancouver.ca	-The city of Vancouver action plan against climate change was presented. -Questions were made about environmental taxes established in Vancouver.
Site Visit- Neighbourhood Energy Utility <i>False Creek Energy Centre, 1890 Spyglass Place (1 hour)</i>	Charling Li, Renewable Energy Planner, City of Vancouver +1-604-349-3267 Charling.Li@Vancouver.ca	-Explanation about the operation of the plant -Tour and explanation of the operation of the plant, it does not currently operate because they presented a contingency for surplus wastewater. -The energy produced in this plant is used for natural gas boilers and heating of houses and buildings that are close to the service area (Southeast false creek) -The plan is planning for an expansion.
BC Climate Action Overview <i>525 Superior St., Victoria Room 4003, 525 Superior St. (1 hour, 30 minutes)</i>	-Ministry of Environment and Climate Change Strategy: *Jesse Baltutis, Senior Policy Analyst Jesse.Baltutis@gov.bc.ca	-Brief review of BC’s geography, demographics, and economy, followed by a review of BC climate action and CleanBC with staff from the Climate Action Secretariat -Details on policy formulation behind CleanBC -Presentation of the Clean BC Program for Industry Strategy





	<p>*Elaine Cross, Project Director Elaine.Cross@gov.bc.ca</p> <p>*Caitlin Copage, Manager, Intergovernmental , Indigenous, and Innovation Partnerships Caitlin.Copage@gov.bc.ca</p>	<p>-They commented that they work together with the legislative branch to implement regulations that seek to reduce carbon emissions</p>
--	---	--

Activity	Attendees	Key Points
<p>BC Carbon Tax</p> <p>Room 4066, 525 Superior St. (1 hour)</p>	<p>-Ministry of Finance *Brian Murata, Strategic Advisor, Tax Policy Branch Brian.Murata@gov.bc.ca</p> <p>*Hugh Hughson, Director, Fuel and Carbon Tax Hugh.Hughson@gov.bc.ca</p> <p>-Ministry of Environment and Climate Change Strategy: *Matt Zahynacz, Director, Clean Investment Matt.Zahynacz@gov.bc.ca</p> <p>*Andrea Orellana, Unit Head, Industrial Mitigation Andrea.Orellana@gov.bc.ca</p>	<p>-Discussion of the considerations that went into the development of the carbon tax, how it complements other pieces of climate action, and the winning of public buy-in through revenue neutrality in the early years of the tax.</p> <p>- Tax incentives play a very important role in the implementation of environmental taxes</p> <p>-Implementation in the legislation of tax incentives in the purchase of electric cars and production of clean energy.</p> <p>-Use socialization campaigns.</p> <p>-They create surveys research for measuring the public opinion</p> <p>-Environmental audits to ensure compliance with the standard. All subjects pay taxes but it is possible to return taxes, the more sustainable the company is, the more money it returns from taxes.</p> <p>-Priorities should be adjusted over time.</p> <p>-The establishment of the gradual increase in the tax has been very important for its acceptance.</p>



<p>Renewable energy, efficiency, and distributed generation</p> <p><i>Room 4003, 525 Superior St. (1 hour)</i></p>	<p>-Ministry of Energy, Mines, and Petroleum Resources *Nat Gosman, Executive Director, Built Environment Nathaniel.Gosman@gov.bc.ca</p> <p>-Ministry of Municipal Affairs & Housing *Aman Gill, Senior Policy Analyst, Building and Safety Standards Branch Aman.X.Gill@gov.bc.ca</p>	<p>-Participants comment that in BC 98% of electricity is produced from clean energy.</p> <p>-Presentation of the Sub secretariat of Energy in Yucatán (Fernando Casillas via Skype meeting)</p> <p>-The need to work on providing resources to work in the undertaking of companies or industries with clean and sustainable energy is identified.</p>
<p>Indigenous off-grid electrification with renewables: Overview of current activities in BC</p> <p><i>Room 4003, 525 Superior St. (1 hour)</i></p>	<p>-Ministry of Energy, Mines, and Petroleum Resources *Eryn Fitzgerald, Policy Analyst, Electricity and Alternative Energy Division Eryn.Fitzgerald@gov.bc.ca</p> <p>-Ministry of Environment and Climate Change Strategy: *Anna Bunce, Policy Analyst Anna.bunce@gov.bc.ca *Avril Nagel, Senior Policy Analyst Avril.nagel@gov.bc.ca</p>	<p>-In the process, reconciliation with indigenous communities in sustainable energies is very important.</p> <p>-They also told us that the same day this was being discussed in the legislative palace, the regulations harmonized with the United Nations Declaration on the Rights of Indigenous Peoples, to provide greater certainty to these social groups.</p> <p>-The projects that are developed are intended to generate economic development and employment opportunities in the communities.</p> <p>-They present a problem similar to that of Yucatan because of the complexities present when working with indigenous communities.</p>

5. Visual evidence from the visit*



IMAGE 1.
 Yucatan and British Columbia
 working together: Members
 of the secondment and their
 Canadian host

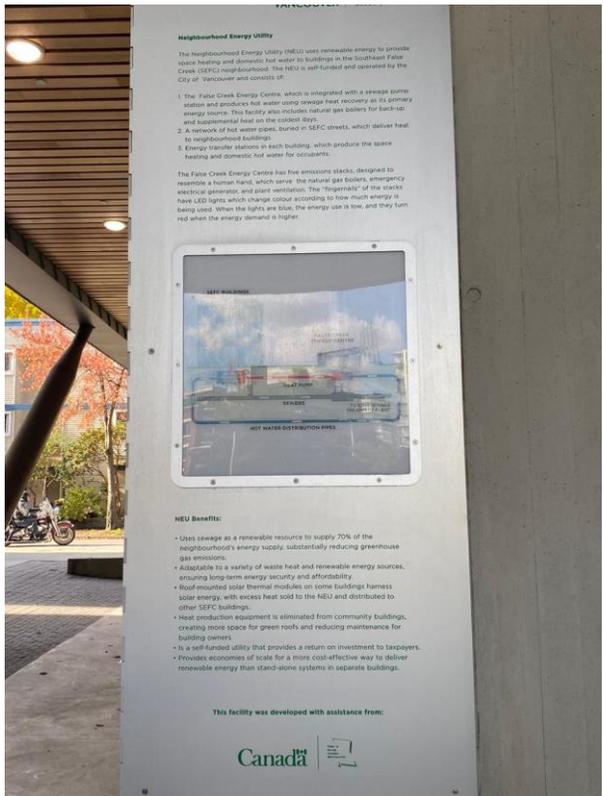


IMAGE 2.
 Neighbourhood Energy Utility
 (NEU): an example of
 renewable energy, efficiency,
 and distributed generation





IMAGE 3 AND 4.
Site visit: Neighbourhood
Energy Utility (NEU)



IMAGE 5 AND 6.
525 Superior Street:
Sharing of information and
presentation of B.C.
strategies and actions

6. Recommendations (SDS internal message)

- The strengthening of the carbon price will encourage citizens and businesses to take into account the climate costs of their actions. They would consume less carbon-intensive goods and services, and gradually move on to low-carbon or zero activities. In addition, clean technology companies would see their competitive position improve against polluting companies. Discouraging investments in carbon-intensive assets, such as coal-fired power plants, also reduces the risk of high adjustment costs in the future.
- Increasing carbon prices first where they are currently lower makes sense. Coal is a particularly striking case, as it is currently subject to taxes at some of the lowest rates for all energy users despite the adverse effects of weather and air pollution. Rates are currently zero in international aviation and shipping, and almost zero or very low for all users in several countries.



- In general, most countries encourage switching to cleaner sources by taxing fuels more than cleaner sources of energy, such as hydroelectric, wind and solar. In some countries, even neutral income tax reforms could strengthen incentives to reduce emissions.

7. Recommendations (To Future Fund)

- Make a pre-feasibility phase for these visits mandatory: If previous contacts have been established, this would reflect on better planned secondments and for the information exchanged to be used more effectively by the visitant delegation/group.
- Create a space during the visits or a requirement during the application to propose a medium-to-long-term engagement between the two participant governments as a tangible outcome of the exchange. This will allow for a more lasting link that could actually catalyze joint projects.
- Open spaces for financial institutions and private investors (traditional and non-traditional, like impact investors) during these visits: Most subnational jurisdictions in developing countries lack the resources to follow some of the experiences and methodologies presented by authorities in developed countries, which makes a tangible outcome from these secondments very hard to achieve.

8. Acknowledgements

The Secretariat of Sustainable Development, on behalf of the Government of the State of Yucatan, Mexico, wishes to wholeheartedly thank the Provincial Government of British Columbia, Canada and in particular the Ministry of Environment and Climate Change Strategy for having hosted Mrs. Aguirre and Mr. Murillo in October 2019 for this international secondment. A special thank you to Mr. Elliott Bourgeault, who was our main point of contact in Victoria and who provided a very personal attention to the representatives of Yucatan involved in this visit.

This peer-to-peer exchange could have not been possible without the generous contribution, in both financial resources and logistical support, from the Under2 Coalition and its secretariat, The Climate Group, with Mary-Claire Harvey as Project Coordinator providing all the logistical and relevant information for us to coordinate better with our hosts.

We firmly believe cooperation amongst peers is crucial to effectively tackle the challenges posed by climate change, so these types of activities should receive constant support and become an integral part of local and subnational jurisdictions all over the globe.

