

Monitoring of Carbon Pricing Mechanisms: A Comparison of the British Columbia Carbon Tax and the Québec Emissions Trading Market

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Terminology

- Inconsistency in use of terms « administrative costs » and « compliance » in the literature and in practice
- Yet highly relevant to instrument choice analysis and evaluation of effectiveness and efficiency
- In this paper:
 - Administrative costs = costs incurred in creating, managing, monitoring and enforcing the system
 - Focus on costs to the state (versus costs to taxpayers/market participants)
 - We will use the term « monitoring » going forward

What is the BC Carbon Tax?



B.C. Carbon Tax – Adm. infrastructure

Collectors must be appointed


Carbon tax administration mirrors that of motor fuel tax

Collectors pay security (security chain continues down to retail seller)

Collectors report and remit on a monthly, quarterly or annual basis based on amount of tax



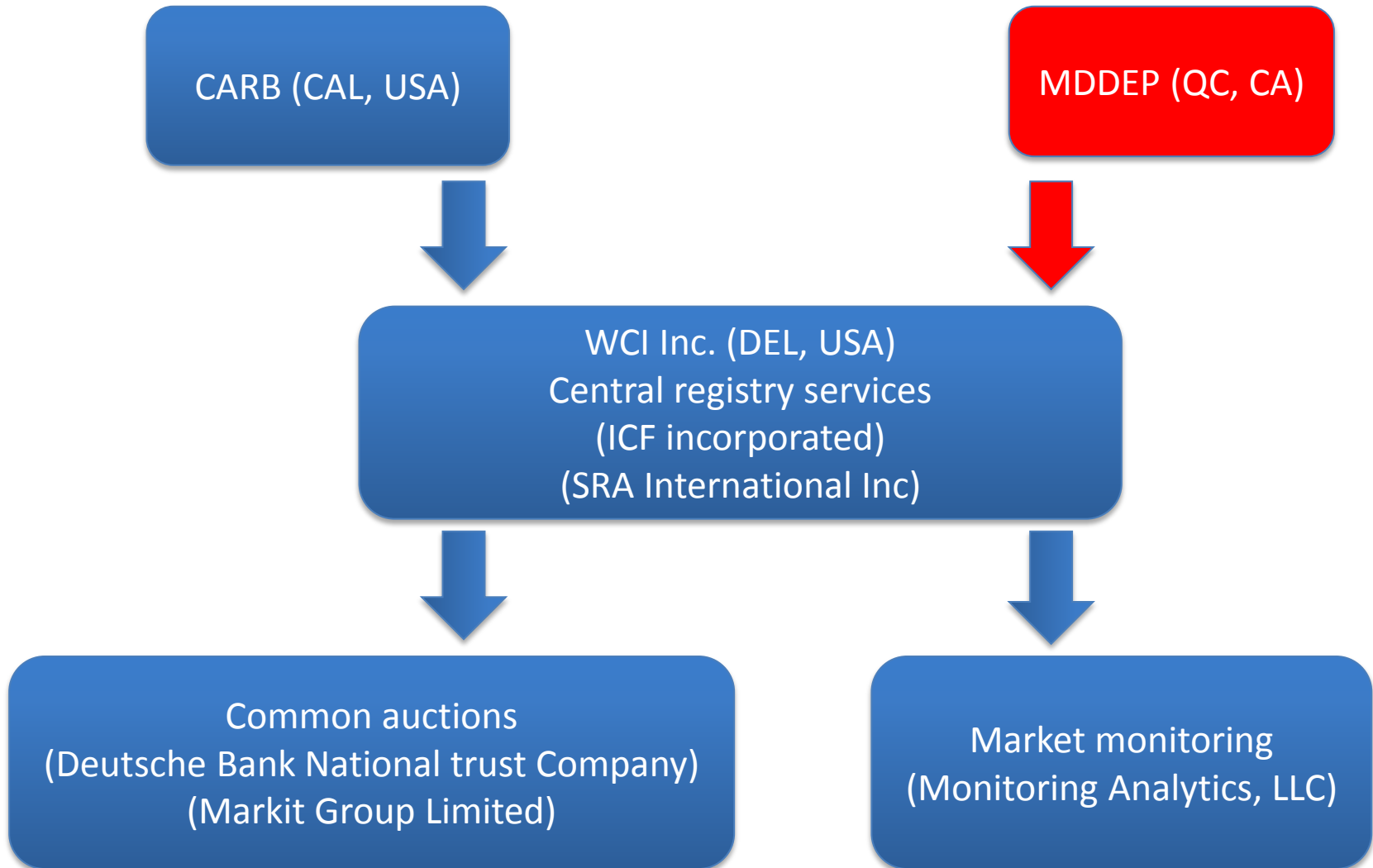
B.C. Carbon Tax – Monitoring continuum

	Carbon Tax Act	Motor Fuel Tax Act
Inspection and audit powers	s. 43(1)	s. 41
Estimation of unremitted tax or security	s. 44	s. 42
Assessment of unremitted tax or security	s. 45	s. 43
Administrative penalties: <ul style="list-style-type: none"> • Tax losses – penalty equal to tax owed • Fraud – additional penalty equal to 25% of tax owed 	s. 47(1)(a) s. 47(1)(b)	s. 44 & 45
Appeals	s. 56 & 57	s. 50 & 51
Offences <ul style="list-style-type: none"> • fine up to \$10,000 and imprisonment up to 2 years + • fine equal to taxes unpaid 	s.75	s. 64(5)
Burden of proof for taxes not collected on accused	s. 76	s. 65

What is the WCI Carbon market ?



WCI Carbon Market - Adm. Infrastructure



WCI Carbon Market - Monitoring continuum

	CARB	MDDEP	WCI INC.	CFTC	CSA
Primary market :					
<i>Units : Auctions</i>			X		
<i>Units : Free allocations</i>	X	X			
<i>Offsets : initial issuance</i>	X	X			
Secondary market :					
<i>Spot trades</i>			X		
<i>Commodity Forwards</i>				[X]	[X]
Derivatives market :					
<i>Commodity Futures</i>				X	[X]
<i>Options & Swaps</i>				X	[X]

Discussion

- Issues in capturing monitoring costs :
 - CT: Administration fused with that of other taxes
 - WCI : No global administrative costs discussion
 - WCI : Market surveillance continuum and hidden costs
- Estimating non-compliance
 - CT: no estimate of tax losses (what is the impact of tax losses on effectiveness of tax in shifting behaviour?)
 - WCI: non-compliance, a potential threat to instrument effectiveness
- Interjurisdictional harmonization
 - CT: interjurisdictional cooperation empowered by legislation
 - WCI: partial interjurisdictional harmonization

Thank you!

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