



CANADA'S APPROACH TO CARBON POLLUTION PRICING

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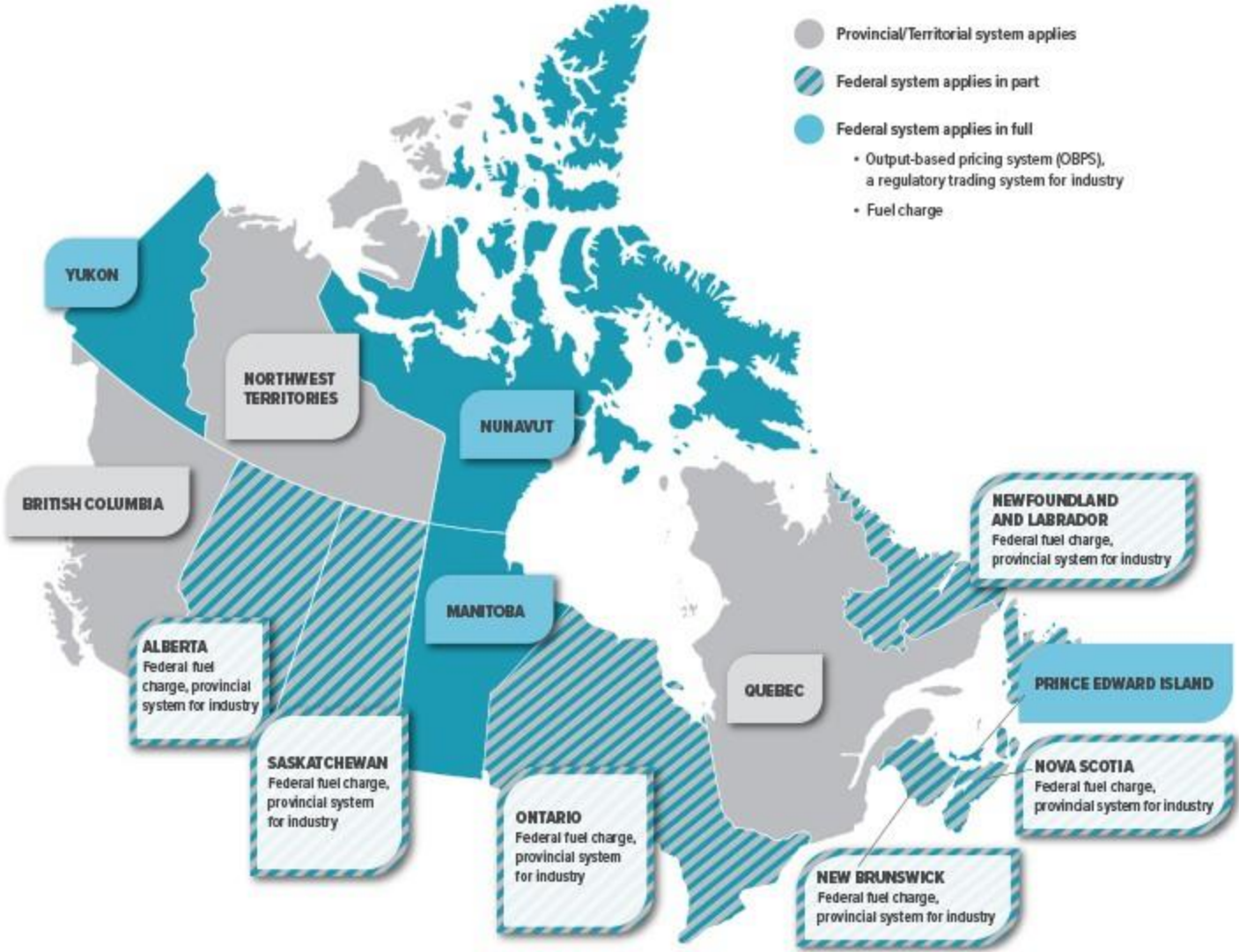
- Carbon pollution pricing is a pillar of Canada's national climate plan
 - Aims to put a price on GHG emissions across Canada at a similar level as an efficient way to incent reductions and innovation across the economy
 - Key to meeting 2030 target to reduce GHG emissions to 40-45% below 2005 levels and net-zero by 2050
 - Pan-Canadian Approach to Pricing Carbon Pollution, announced in 2016, gives flexibility to provinces/territories to implement own systems provided these meet minimum national stringency requirements ('federal benchmark') to ensure comparable scope & stringency
 - Designed to recognize provincial carbon pollution pricing systems already in place (British Columbia, Alberta, and Quebec)
 - Federal carbon pollution pricing 'backstop' system applies in provinces/territories that request it or that do not implement a system that meets the federal benchmark.
 - All direct proceeds from federal system returned to jurisdiction of origin
 - Draft regulations for an Oil and Gas Sector GHG Emissions Cap were published in November 2024. Aim is to reduce GHG emissions from the oil and gas sector to contribute to Canada's 2050 net-zero goal.
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FEDERAL CARBON PRICING 'BACKSTOP' SYSTEM

The Greenhouse Gas Pollution Pricing Act, adopted on June 21, 2018, has two parts:

1. Fuel charge on fossil fuels
 - \$80/tonne CO₂e in 2024, rising \$15/yr. to \$170 in 2030
 - Applies a charge to fuels like gasoline, diesel, natural gas
 - Applies to fuel producers and distributors, who generally pass on the cost
 2. Regulated emissions trading system for industries – the federal output-based pricing system (OBPS)
 - Designed to address carbon leakage risks for emissions-intensive and trade-exposed (EITE) facilities while incentivizing emissions reductions
 - Facilities face a compliance obligation on the portion of their emissions that are above a limit, determined based on output-based standards (emissions per unit of output)
 - Facilities generate surplus credits if they emit under their limit, incenting facilities to continue to improve and enabling the use of GHG offset credits.
 - The system creates a strong financial incentive for the least efficient facilities to reduce emissions per unit of output and for strong performers to continue to improve
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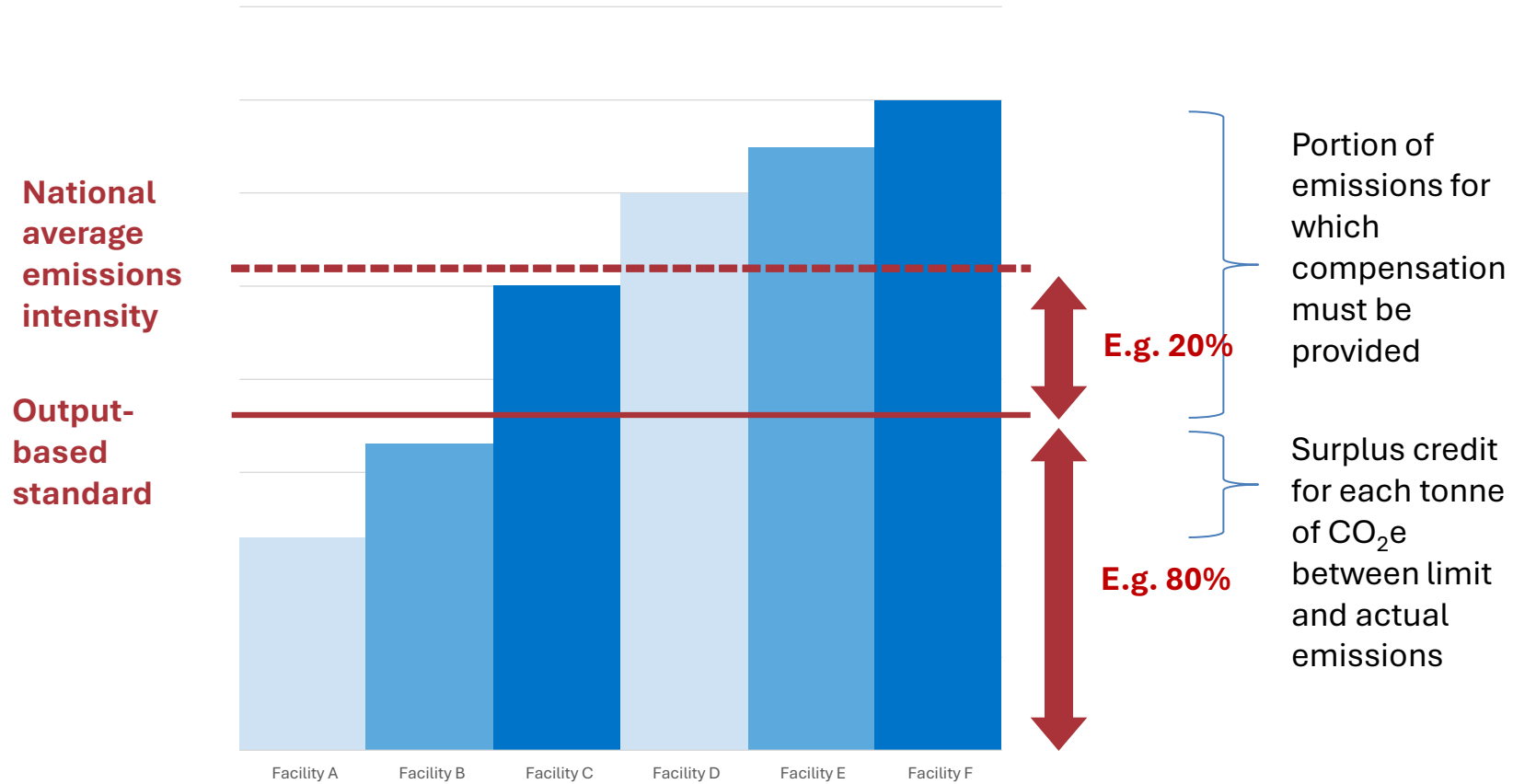
CARBON PRICING LANDSCAPE



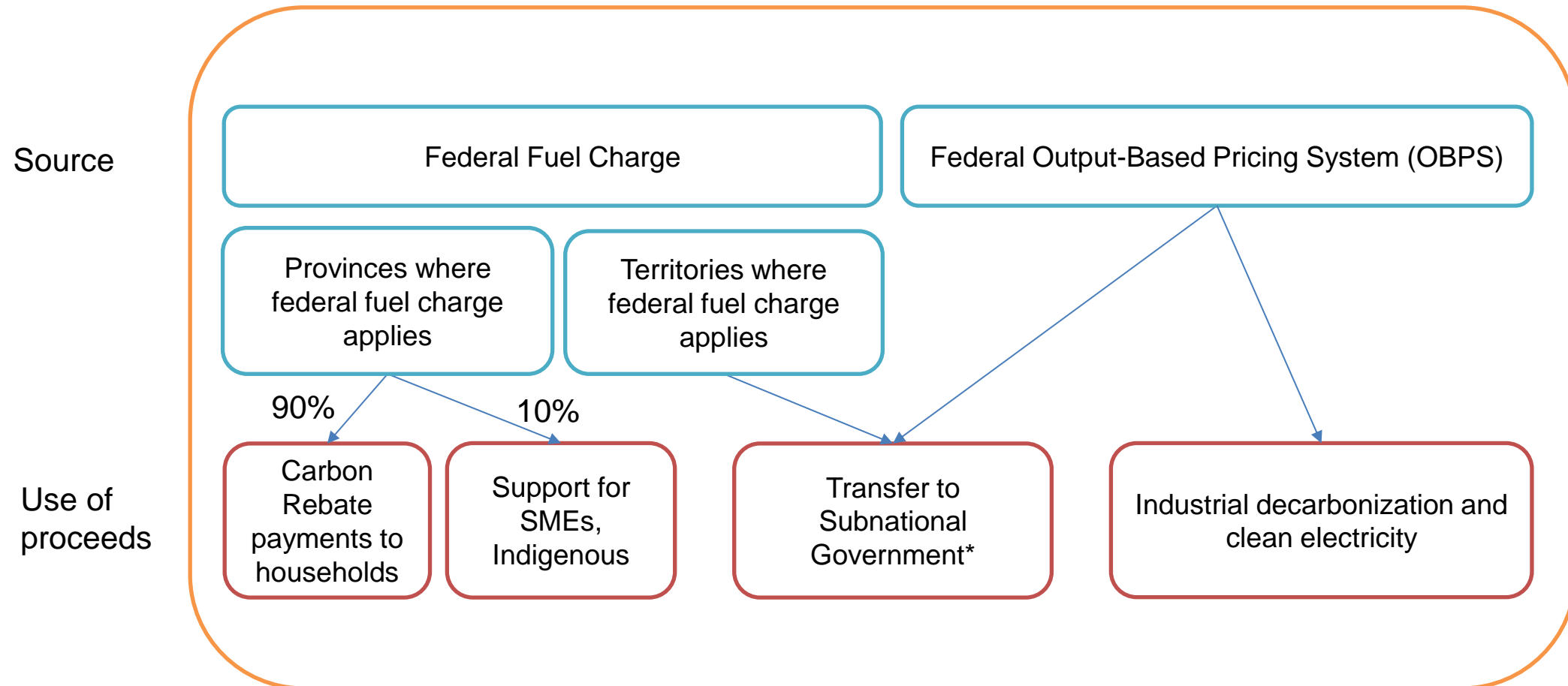
FEDERAL OUTPUT-BASED PRICING SYSTEM (OBPS)

- The federal OPBS is designed to address carbon leakage risks for emissions-intensive and trade-exposed (EITE) facilities while incentivizing emissions reductions:
 - **Coverage:** industrial facilities that emit 50 kt + CO₂e (mandatory); 10 kt + may opt-in
 - **Standards:** Includes 91 output-based standards (OBS) covering a wide range of sectors; set based on sectoral risks analyses; most industries OBS set at 80% of sector's national average emissions intensity; higher risk adjusted to 90% or 95%. As of 2023, 2% annual tightening rate for most OBS and 1% for very high risk EITE.
 - **Compensation options:** Facilities compensate for every tonne of emissions that exceeds OBS through payment of excess emissions charge or remittance of surplus credits or eligible offset credits.
 - **Proceeds:** returned in jurisdictions (directly or via federal programs).

OUTPUT-BASED STANDARDS



PROCEEDS FROM CANADA'S FEDERAL SYSTEM



*Proceeds from **federal OBPS** continue to be returned to Governments of Prince Edward Island, Nunavut, and Yukon, and via federal programming in Manitoba to support clean technology projects in industrial and electricity sectors

RETURN OF PROCEEDS FROM THE FEDERAL FUEL CHARGE

- 90% of projected fuel charge proceeds returned to households via upfront quarterly Carbon Rebate payments
 - Majority (8 out of 10) of households receive more back in payments than they pay as a result of the federal system
 - Lower and middle income households benefit the most
 - Residents of small and rural communities, receive a 20 percent supplementary amount
 - Remaining projected proceeds will be returned through the following targeted initiatives:
 - Through federal programming to small and medium businesses
 - 2% returned to Indigenous governments;
 - Proceeds associated with use of propane and natural gas on farms returned directly to farmers via tax credit
 - The amount of carbon rebate that households will receive is also published ahead of time on the [Canada Revenue Agency \(CRA\) webpage](#). The [quarterly rebate values for 2024-25](#) were announced in February 2024.

OBPS PROCEEDS

Compliance period	Total emissions reported (CO ₂ e Mt)	Excess emissions (CO ₂ e Mt)	Surplus credits issued (CO ₂ e Mt)	Compensation as EEC payments (CO ₂ e Mt)	Total EEC payments	Compensation by surplus credits (CO ₂ e Mt)	Compensation by recognized units (CO ₂ e Mt)
2019	62.27	8.43	0.910	8.193 (97%)	\$164 million	0.250 (3%)	0 (0%)
2020	56.50	8.58	1.10	7.838 (90%)	\$238 million	0.741 (9%)	0 (0%)
2021	56.89	9.13	1.00	7.365 (81%)	\$295 million	1.73 (19%)	0.03 (0.33%)

- Note - these values are for compliance years where the OBPS covered industrial facilities in Ontario and Saskatchewan. Ontario facilities were no longer participating in 2022 and Saskatchewan facilities were no longer participating in 2023.
- 2020 EEC payments include some payments made at the 4:1 rate

OBPS PROCEEDS FUND

- Decarbonization Incentive Program
 - Encourages the long-term decarbonization of Canada's industrial sectors
 - Supports clean technology projects to reduce greenhouse gas emissions
 - Future Electricity Fund
 - Supports clean electricity projects and/or programs
 - Returns proceeds collected from federal OBPS-covered electricity-generating facilities (i.e. utilities)
 - Contribution agreements are between ECCC and the governments of eligible jurisdictions (or other designated third parties)
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