



Implementing Carbon Pricing: Overview and Key Lessons Learned from the Canadian Experience

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Pan-Canadian Approach to Pricing Carbon Pollution

- Carbon pollution pricing is a key pillar of the *Pan-Canadian Framework on Clean Growth and Climate Change* signed by First Ministers in Dec. 2016
- Government of Canada announced the pan-Canadian approach to pricing carbon pollution in Oct. 2016 to ensure pricing applies to a broad set of emission sources throughout Canada, with increasing stringency over time.
- Provinces and territories had until Sept. 1, 2018 to confirm their plans to establish or maintain their own system.
- Provincial and territorial system are assessed against federal stringency requirements annually.



Overview of the Federal Carbon Pollution Pricing System

FUEL PRODUCTION AND DISTRIBUTION



- Pay fuel charge
- 2020 rates (= \$30/t CO₂e)
 - Gasoline: 6.63 ¢/L
 - Light fuel oil: 8.05 ¢/L
 - Natural gas: 5.87 ¢/m³
 - Propane: 4.64 ¢/L
- Some targeted relief

FUEL
DELIVERY



FUEL CONSUMPTION
& HEATING FUEL

- Consumers do not pay the fuel charge directly to the federal government
- Fuel price paid by consumers may have costs of the fuel charge embedded



OBPS FACILITY

- Registered OBPS facilities would generally not pay the charge on fuels that they purchase
- Instead, would be subject to the carbon price on the portion of emissions above a facility emissions limit



Striking the Right Balance – Policy Principles

Setting the rates

- **Simplicity**

- Upstream instrument - Citizens do not declare their own GHG consumption
- Use of proxies for fuel charge rates

- **Certainty**

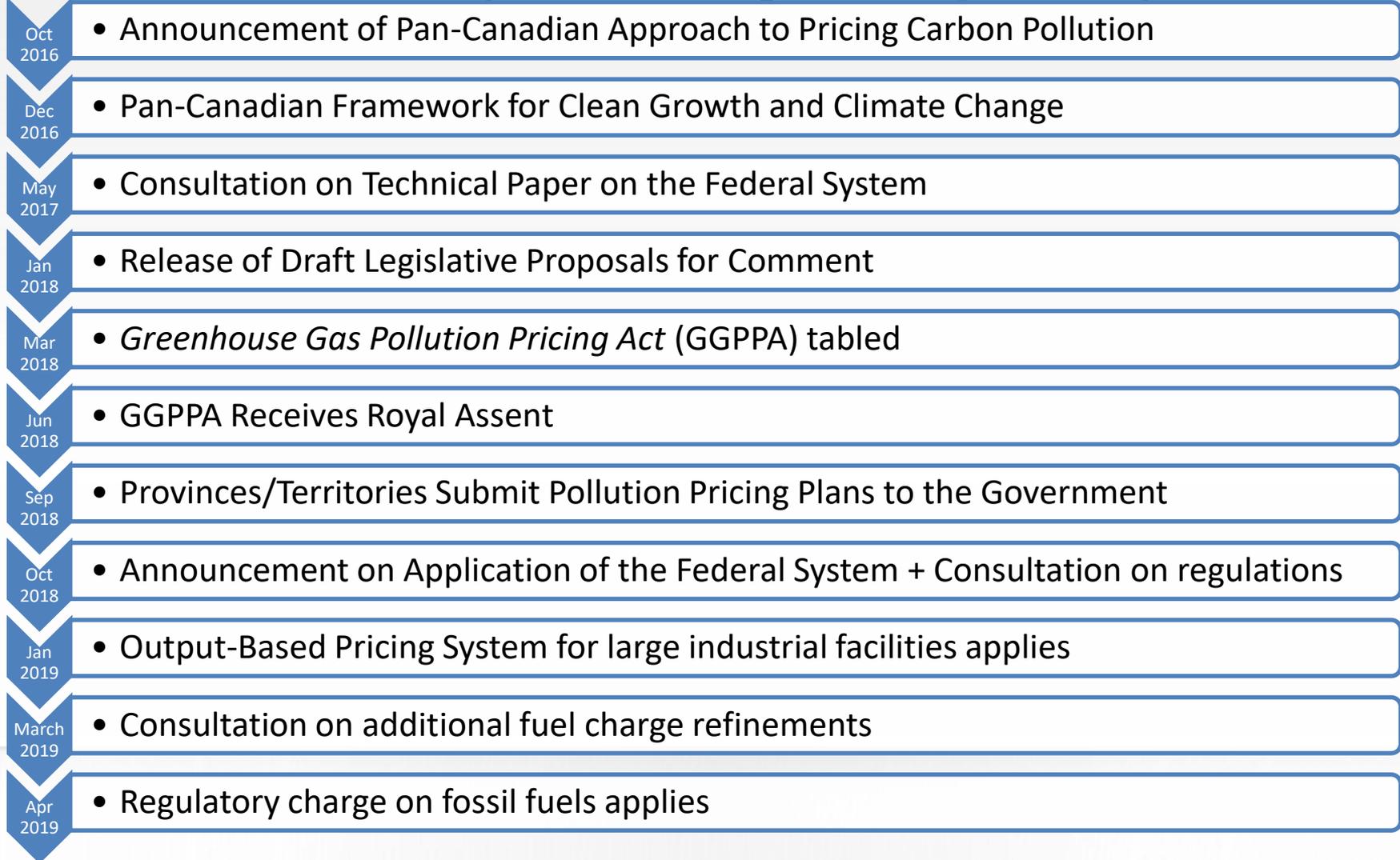
- 22 types of fuels – each of them has to be properly defined (they cannot be mutually interchangeable)
- Need a methodology to compute rates so that they best reflect carbon-dioxide equivalent potential
- Global Warming Potential Factors of Carbon Dioxide vs. Methane vs. Nitrous Oxide; Typical chemical composition of fuels; Specific burning conditions

- **Fairness**

- Fuel charge rates reflect mandatory renewable fuel content
- Special rules for renewable content exceeding a certain threshold



Key Milestones of Canada's Approach to Pricing Carbon Pollution (Fuel Charge Component)





Application of carbon pricing systems across Canada (February 2020)



The Government of Canada intends to remove the federal fuel charge in New Brunswick on April 1, 2020, when New Brunswick will implement a provincial carbon levy.



Revenue Return Under the Federal System

- **The Government of Canada is returning direct proceeds from the federal carbon pollution pricing system to the province or territory of origin.**
- **In jurisdictions that request the federal system, direct proceeds are returned to provincial/territorial governments.**
- **In jurisdictions that do not meet the federal stringency requirements, direct proceeds from the federal system are being returned to:**
 - Individuals and families, through Climate Action Incentive payments via the personal income tax system, and
 - Certain sectors, including small and medium-sized businesses, municipalities, universities, schools, hospitals, colleges, non-profits, and Indigenous communities.



Impact of the Federal Carbon Pollution Pricing System on Households

- In provinces in which the Government of Canada is returning proceeds of the federal carbon pollution pricing system to individuals and families through Climate Action Incentive payments, most households will receive more than they pay as a result of the federal carbon pollution pricing system.

	Ontario	Manitoba	Saskatchewan	Alberta ²
Average cost impact per household ¹ of the federal system	\$362	\$358	\$641	\$534
Average Climate Action Incentive payment per household	\$436	\$486	\$792	\$880

Source: Department of Finance Canada calculations using inputs from Environment and Climate Change Canada and Statistics Canada.

¹ The estimated average impact per household reflects the impact on household spending costs, accounting for direct impacts and indirect impacts. These impacts are inclusive of carbon pollution pricing embedded in imports that households purchase from other provinces/territories on which a federal carbon pollution price is applied. They do not include the costs associated with carbon pricing systems implemented by other jurisdictions; accordingly, they do not include the costs associated with the provincial systems for large industrial facilities in Saskatchewan and Alberta. Estimates assume full-year application of the federal system for 2020-21. Estimates also assume full pass-through from businesses to consumers.

² The \$880 which households in Alberta will receive on average in early 2020 consists of \$126 for the first three months of the fuel charge (January–March 2020) and \$754 for the next 12 months (April 2020–March 2021). These amounts are greater than the estimated average cost impacts per household (which are \$76 for the first three-month period and \$458 for the following 12-month period).



One-Government Approach - Roles and Responsibilities

- **Environment and Climate Change Canada (ECCC)**
 - Established Carbon Markets Bureau
 - Policy and administration of the federal output-based pricing system for large industrial facilities, incl. analysis and industry engagement on competitiveness and carbon leakage risks
 - Engage with provinces and territories and conduct benchmark assessments of provincial/territorial carbon pricing systems
 - Modelling of greenhouse gas emissions and economic impacts
- **Finance Canada**
 - Collaborate with ECCC on carbon pricing policy, including revenue return
 - Federal fuel charge policy
 - Projections of fuel charge proceeds, estimation of cost impacts of carbon pricing on households (using inputs from ECCC) and determination of amounts for Climate Action Incentive payments
- **Canada Revenue Agency**
 - Administration of federal fuel charge and related fiscal costs
 - Administration of revenue return, e.g., to individuals and families through the income tax system (Climate Action Incentive payments)



Thank you / Merci.

For further questions, please contact Dr. Nicole Giles at: nicole.giles@canada.ca