



# PRICING CARBON POLLUTION

Carbon pricing is about recognizing the cost of pollution and accounting for those costs in daily decisions. Putting a price on pollution is widely recognized as the most efficient means to drive innovation and energy efficiency in order to reduce emissions. Since 2019, every jurisdiction in Canada has had a price on carbon pollution. Canada's approach is flexible: any province or territory can design its own pricing system tailored to local needs, or can choose the federal pricing system. The federal government sets minimum national stringency standards that all systems must meet to ensure they are comparable and contribute their fair share to reducing greenhouse gas emissions. If a province decides not to price pollution, or proposes a system that does not meet these standards, the federal system is put in place. This ensures consistency and fairness for all Canadians.

The federal pricing system has two parts: a regulatory charge on fossil fuels like gasoline and natural gas, known as the fuel charge, and a performance-based system for industries, known as the Output-Based Pricing System. The fuel charge applies in Ontario, Manitoba, Yukon, Alberta, Saskatchewan and Nunavut. The Output-Based Pricing System applies in Ontario, New Brunswick, Manitoba, Prince Edward Island, Yukon, Nunavut, and partially in Saskatchewan.<sup>1</sup> All other provinces and territories are implementing their own pricing systems.

Pricing carbon pollution is working in Canada. It is encouraging industries to become more efficient and use cleaner technologies, and it is spurring new and innovative approaches for cutting pollution, using energy differently, and saving money.

The federal carbon pricing system returns all proceeds to individuals, families, and businesses through payments and climate action programs. This helps make carbon pricing affordable, and enables households to make investments to increase energy efficiency and further reduce emissions. Returning proceeds to households works because the amounts received by households do not depend on their energy consumption, so households are still rewarded for using less energy. Our plan also includes targeted support to recognize the unique circumstances of the territories and Indigenous Peoples, such as high costs of living and energy, challenges with food security, and emerging economies.

The Government proposes to increase the carbon price through to 2030, and will continue to provide support to Canadians so that the majority of households will continue to be better off. Going forward, the federal carbon price will continue to be revenue neutral, and the Government of Canada remains committed to ensuring that the federal price on pollution remains affordable, and to helping households to make investments to increase energy efficiency and further reduce emissions. The Government will continue to return all proceeds back to Canadian families and their communities, ensuring that the majority of households receive more in payments than they face in costs. These payments will move from annual to quarterly payments starting as early as 2022.

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<sup>1</sup> The Governments of Ontario and New Brunswick have proposed carbon pollution pricing systems for industrial facilities that meet the federal government's stringency standards for the sources they cover. As a result, the Government of Canada intends to stand down the federal Output-Based Pricing System in those provinces as of a date in the future that will be determined in consultation with each of the two provincial governments.

The carbon price was designed to start low and increase in a predictable manner slowly. A slow but steady increase over a number of years has given Canadians and businesses time to plan and start thinking about how to pollute less in the future. Knowing it will be more expensive to pollute ten years from now motivates everyone to start making changes now by investing in more efficient and less polluting technology today. The first phase of our plan, which we laid out in 2016, set the carbon price at \$20 per tonne of carbon pollution in 2019, rising \$10 every year to \$50 in 2022. With the end of the first five years approaching, it is now time to provide longer-term certainty on the price of pollution out to 2030.

Continuing to increase the price on carbon pollution is a central part of our proposal for a strengthened climate plan. Carbon pollution pricing can help us achieve our environmental goals and economic ambitions at the same time. Without a stronger carbon price, achieving Canada's environmental goals would require additional regulations.

Under our proposal, the federal government would increase the carbon price by \$15 per year starting in 2023 rising to \$170 per tonne in 2030, while continuing to provide support to Canadians and businesses, to ensure that carbon pricing remains affordable and households are better off. Proceeds collected from the Output-Based Pricing System for industry will support our plan to decarbonize industrial sectors.

## **CARBON PRICING AND EMISSIONS REDUCTIONS**

Continuing to increase the carbon price over the coming decade is essential for driving low-cost emission reductions in the near-term and for paving the way for Canada's longer-term low-carbon transformation. Canada's approach to carbon pricing has and will continue to unlock critical emissions reductions today, by 2025, by 2030 and on the road to net-zero emissions by 2050.

## **SOCIAL COST OF CARBON**

The federal government currently uses a [social cost](#) of \$50/tCO<sub>2</sub> (in 2019 dollars) to measure the costs and benefits associated with changes in emissions.<sup>2</sup> The social cost of carbon is a monetary measure of the global damage expected from an additional tonne of CO<sub>2</sub> emissions for a given year. [Recent research](#) indicates that this value underestimates the damages of climate change to society and the social benefits of reducing carbon pollution. This underscores the importance of setting long-term price signals to achieve long-term economic and environmental goals like net-zero emissions by 2050.<sup>3</sup> We are committed to revising the social cost of carbon value we use based on the latest climatological and economic evidence.

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<sup>2</sup> Further information can be found in the *Technical Update to Environment and Climate Change Canada's Social Cost of Greenhouse Gas Estimates* at [http://publications.gc.ca/collections/collection\\_2016/eccc/En14-202-2016-eng.pdf](http://publications.gc.ca/collections/collection_2016/eccc/En14-202-2016-eng.pdf).

<sup>3</sup> For more information, see: [www.nature.com/articles/s41558-020-0880-3?utm\\_source=nclimate\\_etoc&utm\\_medium=email&utm\\_campaign=toc\\_41558\\_10\\_11&utm\\_content=20201031&sap-outbound-id=6D470CB188379268F821665199DCE8D14C654427](https://www.nature.com/articles/s41558-020-0880-3?utm_source=nclimate_etoc&utm_medium=email&utm_campaign=toc_41558_10_11&utm_content=20201031&sap-outbound-id=6D470CB188379268F821665199DCE8D14C654427)

## STRENGTHENING THE FEDERAL APPROACH

Provinces and territories will continue to have flexibility to maintain their own systems. However, for carbon pricing to be effective, all systems across Canada will need to maintain effective price signals to reduce emissions.

As part of the next phase of carbon pricing, in addition to increasing the carbon price, the government proposes to review the standards we use to assess provincial systems, also known as the federal “benchmark criteria.”<sup>4</sup> Strengthening these standards will help us meet our climate goals while allowing provinces and territories to choose the pricing systems that works best for them.

Over the coming months, the federal government will consider how best to strengthen the benchmark criteria and assessment process. We will work closely with provinces and territories, as well as Indigenous organizations.

Some of the key elements we will look to improve in an updated benchmark assessment process include:

- **Common scope and coverage:** ensuring all systems apply a price to a more consistent set of greenhouse gas emission sources.
- **A clear price signal:** making sure all systems create a strong incentive to cut emissions by sending a clear price signal, including in credit markets. Government rebates to consumers and businesses should not weaken that price signal.
- **Increasing stability:** consumers and businesses need long-term certainty about which carbon pricing system applies. This may involve moving to multi-year assessment periods.

Provinces and territories with their own carbon pricing system make their own decision on how to utilize the proceeds from carbon pollution pricing. As the price on carbon pollution increases, the federal system will continue to return proceeds from pricing pollution to the province or territory of origin.

To inform this work, the federal government, with input from provinces, territories and National Indigenous Organizations, has asked the Canadian Institute for Climate Choices to conduct an independent expert assessment of all carbon pollution pricing systems in Canada. To be completed in early 2021, the assessment will compare the stringency and effectiveness of carbon pricing systems, considering lessons learned from carbon pricing systems around the world.

## OPPORTUNITIES THROUGH OFFSETS

The Federal GHG Offset System will encourage cost-effective, voluntary emissions reductions and removals in Canada from activities not covered by carbon pricing, expanding the financial incentives to reduce carbon pollution across the economy. It will create opportunities for foresters, farmers, Indigenous communities and other project developers who implement innovative projects to reduce carbon pollution.

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<sup>4</sup> For more details on Canada’s current approach to the benchmark assessment, see: [www.canada.ca/en/services/environment/weather/climatechange/pan-canadian-framework/guidance-carbon-pollution-pricing-benchmark.html](http://www.canada.ca/en/services/environment/weather/climatechange/pan-canadian-framework/guidance-carbon-pollution-pricing-benchmark.html)

Federal offset credits can be used by industrial facilities as a form of payment under Canada's industrial pricing system, the Output-Based Pricing System. In addition, other groups, including governments and businesses, can use offset credits to meet internal climate objectives.

## **ENGAGEMENT WITH PROVINCES, TERRITORIES AND INDIGENOUS PEOPLES**

In the spirit of cooperative federalism, the Government of Canada wills engage provincial and territorial governments, as well as Indigenous Peoples, to inform the next phase of carbon pricing. This includes:

- Engaging provinces, territories and Indigenous Peoples on our proposals to increase the carbon price and strengthen the federal benchmark post-2022.
- As outlined in the Pan Canadian Framework, we are working with provinces and territories to complete an Interim Report in 2020 on carbon pricing systems across Canada.
- We are committed to working with provinces and territories as we develop the Federal GHG Offset System in accordance with the Pan-Canadian GHG Offsets Framework.
- Engaging Indigenous Peoples on the return of proceeds from pollution pricing; in reporting and review processes to seek perspectives on the path forward, and to support Indigenous participation in the Federal GHG Offset System.
- The Canadian Institute for Climate Choices is leading an independent expert assessment of all carbon pricing systems in Canada, with input from federal, provincial and territorial governments and National Indigenous Organizations.

The results of this broad suite of engagement activities will inform the path forward on carbon pricing over the next decade.