

USE OF PROCEEDS

FROM THE FEDERAL
OUTPUT-BASED
PRICING SYSTEM

Seeking input on the approach
for returning proceeds to
support climate action

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Environment and
Climate Change Canada

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Overview

Pricing carbon pollution is a key part of Canada's clean growth and climate plan, and is the most efficient and least-cost way to reduce climate pollution while driving innovation. In order to ensure there is a price on carbon pollution across Canada, the Government of Canada has developed a carbon pollution pricing system that applies in provinces and territories that have requested it or that have not developed their own pricing systems that meet [federal stringency requirements](#). The federal system has two parts: a regulatory charge on fuel, and a performance-based system for industry, known as the Output-Based Pricing System (OBPS).

The federal carbon pollution pricing system is not about raising revenues. It is about recognizing that pollution has a cost, empowering Canadians, and encouraging cleaner growth and a more sustainable future. Around the world, governments use proceeds from pricing carbon pollution for various purposes, including reducing business or individual taxes, helping businesses and households invest in energy efficiency, building transit and other infrastructure, and offsetting costs incurred by low-income households or other vulnerable groups. Research has shown that using proceeds in these ways does not counteract the carbon price, but in fact can make it more effective and equitable by driving additional emission reductions and limiting unintended impacts.

The Government will return all direct proceeds from the federal system to the province or territory where they were collected:

- Provincial and territorial governments that have committed to addressing climate change by voluntarily adopting the federal system will receive these proceeds directly from the federal government and can decide on how to use them;
- In provinces that have not committed to pricing carbon pollution, the Government is seeking input to inform the approach for returning OBPS proceeds. The approach will be guided by a number of considerations, including ensuring the proceeds remain in the jurisdiction where they were collected, ensuring transparency, driving further emission reductions, and supporting innovation and the transition to a low-carbon economy.

How the Output-Based Pricing System works

The OBPS encourages industrial facilities to reduce their greenhouse gas emissions, while maintaining their competitiveness and avoiding carbon leakage.¹ Under the OBPS, industrial facilities pay on their emissions that exceed a set level. Facilities that emit less than the level earn surplus credits they can bank or sell.

¹ Carbon leakage refers to the phenomenon of industrial activity or investment – and thus emissions – shifting or “leaking” from a jurisdiction with a price on carbon pollution to one without a similar price. If this happens, it undermines the ultimate environmental objective of reducing global emissions and harms Canada's economy through lost production or investment.

Facilities with emissions above the set level have the following options:

- pay a charge to the Government of Canada at the same level as the fuel charge (e.g., \$20 per tonne for 2019);²
- submit compliance units (federal OBPS surplus credits, offset credits issued by the Minister, if enabled through regulations, and provincial and territorial GHG offset credits recognized as compliance units); or
- a combination of the previous two options.

These flexible compliance options help reduce overall costs and encourage emission reductions across sectors. However, this flexibility also makes it difficult to predict the amount of proceeds that will ultimately be generated under the OBPS, since the government does not know which of the options each facility will choose.

The OBPS took effect in Ontario, New Brunswick, Manitoba, Prince Edward Island, and Saskatchewan on January 1, 2019. Facilities in the system are currently tracking their emissions and production, but will not report or pay until mid-2020. The actual amount of proceeds available to be invested from pricing in 2019 will thus not be known until late 2020.

Support for reducing emissions from industry

The Government of Canada supports industries across the country as they work to improve their efficiency and productivity, reduce their emissions, save money, and grow. Some of the programs that support emission reductions from industry include:

- [Low Carbon Economy Fund \(\\$2 billion\)](#), which supports projects that reduce greenhouse gas emissions, including in industry;
- [Sustainable Development Technology Canada \(\\$400 million\)](#), which helps Canadian companies develop and demonstrate new environmental technologies;
- [Green Infrastructure](#) fund (\$9.2 billion), which supports infrastructure projects that help Canada transition to a clean growth economy;
- [Clean Growth Program](#) (\$155 million) to support clean technology research, development and demonstration projects in the energy, mining and forestry sectors.

Providing input

Interested parties are invited to provide written comments by email, on or before August 30, 2019 at: ec.tarificationducarbonatecarbonpricing.ec@canada.ca. The following questions are intended to help guide input.

What existing programs are good models to follow?

What types of activities should be funded?

² As indicated in the [Pan-Canadian Approach to Pricing Carbon Pollution](#), the price will increase by \$10 per year until it reaches \$50 per tonne in 2022.

Who should be eligible to receive funding?

How should funds be allocated across eligible recipients?

How should funds be disbursed?

What are your concerns and priorities for how OBPS proceeds should be invested?

Related material

- [How the price on pollution works for big industry](#)
- [Output-Based Pricing System](#)
- [Compliance options under the federal output-based pricing system](#)

Returning fuel charge proceeds

- [How we're putting a price on carbon pollution](#)
- [Transparency and projected proceeds](#)
- [Support for small and medium-sized businesses](#)
- [Support for municipalities, universities, schools and colleges, hospitals, non-profits and Indigenous communities](#)
- [Climate action incentive](#)
- [Climate Action Incentive Fund](#)