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Pan-Canadian Price on Carbon

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On October 3, Prime Minister Trudeau pre-empted climate negotiations with Canada's premiers by announcing the federal government's plan to impose a pan-Canadian price on carbon. The plan requires all Canadian jurisdictions to have a system for carbon pricing in place by 2018, with a view to ensuring Canada meets its objective to reduce carbon emissions to 30% below 2005 levels by 2030.

Although provinces and territories will have the flexibility to decide how they will implement carbon pricing, the federal government will set a floor price for carbon emissions. For 2018, the price will be set at \$10 per tonne of greenhouse gases emitted. That price will rise by \$10 each year until 2022, when the federally set minimum price will be \$50 per tonne.

Under the proposed plan, provinces and territories that do not opt for either a cap-and-trade system or a carbon tax will have the federal pricing system imposed on them. The provinces and territories that do opt for a particular system but do not respect the federal price will be subject to a federal carbon tax to make up the difference. In either case, revenues generated from the federal tax will be returned to that province or territories.

Québec and Ontario have each adopted cap-and-trade systems. For our previous communications on these systems, see **Ontario's Cap and Trade Regime**; **Ontario's Carbon Market Revealed**; **Carbon Pricing: Provincial Action Ahead of the Paris Climate Conference**; **Greenhouse Gas Emissions: Important Provincial Initiatives**; **Ontario and Québec Collaborate to Reduce Carbon Emissions**. Carbon allowances were traded at a unit price of \$16.45 in the last Québec/California joint auction held in August 2016 and there is no indication that the market value will increase at a rate similar to that of the federal price.

Alberta's carbon tax regime puts a price on carbon at \$20 per tonne beginning January 1, 2017, rising to \$30 per tonne the following year. British Columbia's system applies a \$30 per tonne carbon tax to the purchase or use of fuels and combustibles when used to produce heat or energy. And it currently applies an emissions cap on liquefied natural gas operations, as part of a limited cap-and-trade system. Neither province anticipates the price escalation of the federal regime.

Saskatchewan, Canada's fourth largest emitter of carbon, does not support carbon pricing. To date, Saskatchewan has focused on reducing its emissions from coal generation through carbon capture and storage technology. Saskatchewan is also proposing to increase its renewable energy generation from 25% today to 50% by 2030. It is not clear how Saskatchewan will further mitigate its emissions in accordance with the federal plan.

Davies will continue to follow developments regarding the proposed federal plan and how it proposes to deal with issues such as the types of emissions that will be covered and whether emissions-intensive and trade-exposed industries will be protected to safeguard against carbon leakage.

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