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Pan-Canadian Carbon Pricing Update: Federal Backstop Legislation Proposed

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This week, the federal government released, for public comment, draft legislation relating to the proposed federal carbon pricing system. The *Greenhouse Gas Pollution Pricing Act* provides a complex framework for the implementation of a federal carbon pricing "backstop" to be applied to provinces and territories that either request it or fail to develop a system that aligns with federal standards by September 1, 2018.

As we previously reported, the federal government's Pan-Canadian Framework on Clean Growth and Climate Change outlines its plan to reduce carbon emissions by 30% below 2005 levels by 2030. A central component of the Pan-Canadian Framework is a commitment to price carbon emissions across Canada by 2018. In general, the draft legislative proposal would implement the federal backstop outlined in the *Technical Paper on the Federal Carbon Pricing Backstop* released in May 2017 and is composed of two elements: (1) a charge on fossil fuels and combustible waste mainly payable by fuel producers, fuel distributors and transportation carriers, which would be set by type of fuel and would increase yearly; and (2) an output-based pricing system requiring payment by some industrial facilities that emit greenhouses gases above a prescribed threshold (but they would not pay charges on fuels purchased). The federal backstop would, for the purpose of the output-based pricing system for industrial facilities, set the price for carbon at an initial $10 per tonne in 2018, increasing by $10 per tonne each year to $50 per tonne by 2022.

Currently, four provinces – Alberta, British Columbia, Ontario and Québec – have adopted their own carbon pricing systems, which the federal government will assess; these provinces are expected to be exempt from the federal backstop. The remaining provinces and territories must notify the federal government if they choose to adopt the federal backstop by March 30, 2018 (or implement their own carbon pricing system by September 1, 2018). To ensure that provincial and territorial carbon pricing systems continue to meet the federal backstop, an annual verification process would begin in 2019.

The federal government intends to implement the federal backstop on January 1, 2019, in any province or territory that does not have an equivalent carbon pricing system, and it would remain in effect until at least 2022.

As part of the Pan-Canadian Framework, the federal government has released additional measures to achieve emissions reductions targets across all sectors of the economy. In May 2017, it released the proposed *Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds (Upstream Oil and Gas Sector)*, which would aim to reduce emissions of methane and certain volatile organic compounds from the oil and gas sector by 40% to 45% from 2012 levels by 2025. The final version of these regulations is expected in mid-2018. In addition, the federal government released the Clean Fuel Standard Regulatory Framework in December 2017, which is intended to increase the use of lower-carbon fuels and alternative technologies. The draft regulations are expected to be published in late 2018.

Public comment is invited on the draft *Greenhouse Gas Pollution Pricing Act* until February 12, 2018, and it is expected to be tabled in the House of Commons shortly thereafter.

For further background, read Pan-Canadian Price on Carbon and Details Released on Federal Proposal for Pan-Canadian Price on Carbon.

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