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TITLE: Government of Canada Releases Draft Backstop Carbon Legislation

On January 15, 2018, the Canadian Minister of Environment and Climate Change and the Minister of Finance [released](#) the proposed Greenhouse Gas Pollution Pricing Act (“Act”), which will enable the Government of Canada to implement the Federal backstop program in provinces and territories that do not have their own equivalent carbon pricing system.

The Federal backstop program (“Backstop”) consists of:

- An [output-based pricing system](#) (“OBPS Regime”), a **product-level emission intensity baseline**, to manage industrial greenhouse gas (“GHG”) emissions; and
- A **fossil fuel tax** (“Charge Rate”).

Provinces and territories (“Jurisdictions”) have until March 30, 2018, to confirm their decision to elect the Backstop or to implement an equivalent carbon pricing system; the criteria needed to prove system equivalency are still under development. Jurisdictions electing to implement their own equivalent carbon pricing systems must submit their plans for federal evaluation and approval by September 1, 2018. After these assessments, Jurisdictions will be required to implement, in whole or in part, the Backstop or their equivalent system by January 1, 2019.

To mitigate concerns surrounding political or regulatory uncertainty underpinning the Backstop, the Government of Canada has:

- Indicated the **Backstop would remain in effect until at least 2022**; and
- Confirmed in the Act carbon charges per tonne of emitted CO₂ equivalent (CO₂e) up to 2022:

From Schedule 4 of the proposed Act:

Calendar Year	2018	2019	2020	2021	2022
Charge per Tonne of CO ₂ e (“Excess Emissions Charge”)	\$10	\$20	\$30	\$40	\$50

Although key logistical and implementation details of the program are still under development, the legislative steps to formalize this pricing framework are promising for providing regulatory certainty of a mandatory nation-wide carbon pricing system. Key components of the OBPS Regime include:

- Facilities subject to the OBPS Regime (“covered facilities”) include **emitters over 50,000 tonnes of CO₂e that carry out an activity with a prescribed output-based standard (“OBS”)**
- **Covered facilities registered under the OBPS Regime will generally not pay Charge Rates on fuels they purchase**
- Covered facilities must **satisfy its compliance obligation each annual compliance period by paying an Excess Emissions Charge into the Consolidated Revenue Fund or by submitting Compliance Units**, such as Surplus Credits or Offset Credits when an offset credit system is established

Provincial and territorial governments will be working closely with Environment and Climate Change Canada over the next few months to advocate for equivalency of their carbon pricing systems. At this stage, exposure to carbon pricing appears inevitable for Canadian industry and taking proactive steps to understand its impact will provide covered facilities with the best available information to influence and inform policymaker decisions in the coming months.

For more information or to discuss how ClimeCo can drive value for your organization, contact Chelsea Bryant at 484.415.0501 or cbryant@climeco.com.

ClimeCo Corporation is a respected advisor, transaction facilitator, and trader of environmental commodity market products. Specialized expertise in Alberta CCIR, WCI cap-and-trade (California and Quebec), regional criteria pollutant trading programs, voluntary markets, and project development and financing of internal CO₂ abatement systems, complement ClimeCo's diverse commodity portfolio.