



The workings of the *Greenhouse Gas Pollution Pricing Act* as a backstop carbon pricing legislation

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Isabelle Vachon, Environment and Climate Change
Canada

Outline

- Overview of the greenhouse gas pollution pricing regimes in Canada
- Milestones that shaped the federal approach to carbon pricing
- Overview of the *Greenhouse Gas Pollution Pricing Act* (GGPPA)
- Application in provinces, territories and areas
- Pricing mechanisms (Part 1 and 2 of GGPPA)
- GGPPA's other Parts
- Milestones to come
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Overview of greenhouse gas pollution pricing regimes in Canada

- Three main mechanisms to apply price on greenhouse gas pollution:
 - A levy or charge
 - Cap-and-trade system
 - Performance standard systems
- British Columbia, Alberta and Quebec currently have existing provincial carbon pricing regimes
- Goal of pricing greenhouse gas pollution is to provide an incentive to reduce emissions

Milestones that shaped the federal approach to carbon pricing

- November 2015: Minister of Environment and Climate Change mandated to work with provinces and territories to develop plan to combat climate change and reduce greenhouse gas emissions, including by putting price on greenhouse gas pollution
- March 2016: Issuance of Vancouver Declaration on Clean Growth and Climate Change by Canada's First Ministers

Milestones (cont'd)

- October 2016: Canada ratifies the Paris Agreement
- December 2016: Issuance of the Pan-Canadian Framework on Clean Growth and Climate Change (PCF) by Canada's First Ministers
- May 2017: Federal government releases Technical Paper on the Federal Carbon Pricing Backstop outlining proposed design of federal approach to greenhouse gas pricing

Milestones (cont'd)

- January 2018: Federal government releases Output-based Pricing System Regulatory Framework document and a legislative proposal relating to *Greenhouse Gas Pollution Pricing Act*
- June 21, 2018: Bill C-74, the *Budget Implementation Act, 2018, no.1*, which includes the enactment of the *Greenhouse Gas Pollution Pricing Act* (i.e. the federal backstop pricing system) receives Royal Assent

Milestones (cont'd)

- September 1, 2018: Deadline for provinces and territories that choose to establish or maintain their own system to outline their implementation plan
- Fall 2018: Federal government assesses provincial and territorial systems against national benchmark and announces where the federal backstop will apply

Overview of the *Greenhouse Gas Pollution Pricing Act*

- Short Title
- Part 1 – Fuel Charge
- Part 2 – Industrial Greenhouse Gas Emissions
- Part 3 – Application of Provincial Schemes
- Part 4 – Report to Parliament
- Schedules

Application in provinces, territories and areas

- The *Greenhouse Gas Pollution Pricing Act* (GGPPA) will only apply in backstop jurisdictions
- Application of GGPPA triggered by addition of a province, territory or area to Schedule 1
 - Schedule 1 will list provinces, territories and areas without a price on greenhouse gas pollution or with a price that does not meet federal standard
- Direct revenues made under either part of GGPPA will be returned to the jurisdiction of origin

Pricing mechanism

- GGPPA will apply to broad set of emission sources through two complementary pricing mechanism:
 - **Fuel charge (Part 1):** applicable to fossil fuels and is generally payable by fuel producers or distributors
 - **Output-based pricing system (OBPS) (Part 2):** applicable to excess emissions of industrial facilities, i.e. emissions that exceed a particular limit identified in regulations
- Fuel charge will apply unless facility is covered under the OBPS (or other exemption applies)

Fuel charge (Part 1)

- Provides details on how fuel charge will be applied in backstop jurisdictions and sets charge rates (Schedule 2)
- Sets out registration and related requirements
- Relief for fuels used at facility covered under Part 2 (OBPS) if exemption certificate applies (i.e. link between Part 1 and 2)
- Relief for fuels used for certain activities (e.g. farming) if exemption certificate applies

Output-based pricing system (Part 2)

- Part 2 of the GGPPA is comprised mostly of enabling authorities
- Facilities covered under Part 2 will have the following main obligations:
 - Registration
 - Reporting at the end of each compliance period
 - Providing compensation if emissions have exceeded the emissions limit
 - If facility's emissions are below limit, will earn tradeable surplus credits
 - Opening and maintaining accounts in the tracking system

Output-based pricing system (Part 2) (cont'd)

- Part 2 of GGPPA contains information gathering requirements
- Part 2 has an enforcement regime that is distinct from Part 1 and set outs:
 - enforcement tools , such as compliance orders, administrative monetary penalties, injunctions, prosecution;
 - regime aligned with other federal environmental Acts;
 - that each tonne of CO₂e left unpaid can be a separate offence.

The other Parts of the Act

- Part 3 of GGPPA offers option to apply provincial or territorial laws concerning greenhouse gas emissions to federal and aboriginal lands when there is an application gap in regards to pricing of greenhouse gas pollution
- Part 4 of GGPPA requires Minister to prepare annual report on administration of Act and table it in each House of Parliament

Milestones to come

- Fall 2018: The federal government will announce where the federal carbon pricing system will apply
- 2018-2019: Development of the OBPS regulations
- 2019: When the federal system in GGPPA will effectively apply in backstop jurisdictions

Resources

- [Pan-Canadian Framework on Clean Growth and Climate Change](#)
- [Guidance on the pan-Canadian carbon pollution pricing benchmark](#)
- Text of the [Greenhouse Gas Pollution Pricing Act](#)
- [Explanatory Notes Relating to the Greenhouse Gas Pollution Pricing Act and Related Texts](#)
- [Output-based pricing system regulatory framework](#)
- [Carbon pricing: regulatory framework for the output-based pricing system](#)
- [Carbon pricing: compliance options under the federal output-based pricing system](#)
- [Update on the output-based pricing system: technical backgrounder](#)



Annex 1– Detailed look at the output-based pricing system (Part 2)

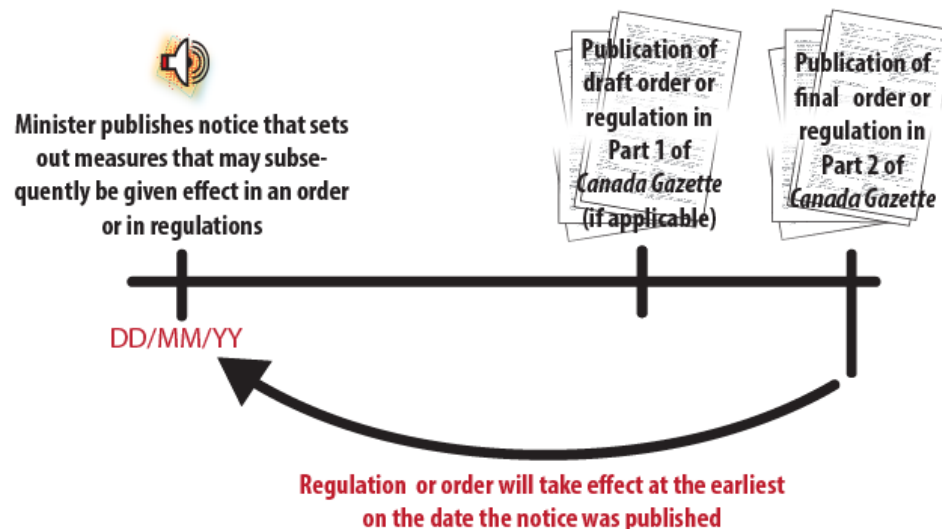
Application in provinces, territories and areas

- Reminder: application of GGPPA triggered by addition of a province, territory or area to Schedule 1
 - Schedule 1 of GGPPA was empty at introduction, but GGPPA provides authority to the Governor in Council (GiC) to amend it via order
 - Test for addition of province/territory/area on Part 2 of Schedule 1: GiC is required to take into account, as the primary factor, the stringency of provincial pricing mechanisms

Application in provinces, territories and areas (cont'd)

- Addition of province, territory or area on Part 2 of Schedule 1 will also require creation of regulations (or amendments to future ones) made under Part 2 of the Act
 - GGPPA provides optional mechanism for quick application of OBPS to a province newly added to Part 2 of Schedule 1:

TIMELINE & EFFECT OF CERTAIN ORDERS OR REGULATIONS



Regulated facilities (i.e. covered facilities)

- It is proposed that the OBPS will apply to facilities:
 - in backstop jurisdictions;
 - that reported annual emissions of 50 kt CO₂e or more;
 - that carry out an activity for which an output-based standard (OBS) is prescribed.

Possibility for voluntary opt-in if emit 10-50 kt CO₂e, in backstop jurisdiction and carry out activity or producing a product for which a standard is prescribed

Regulated facilities (i.e. covered facilities) (cont'd)

- ECCC is proposing to develop OBSs for the following sectors/sub-sectors:
 - Base metal smelting and refining
 - Bitumen and heavy oil upgrading
 - Cement
 - Chemicals (Ethanol)
 - Iron ore pelletizing
 - Iron and steel
 - Lime
 - Mining
 - Natural gas pipelines
 - Nitrogen fertilizers
 - Oil sands and heavy oil
 - Other manufacturing
 - Potash
 - Pulp and paper
 - Refining
 - Steam/heat
 - Upstream oil and gas

Output-based standards (OBS)

- Covered facility's annual GHG emissions limit (in CO₂e tonnes) based on prescribed OBS for the production activities that it undertakes
 - Limit will be determined by multiplying applicable OBS and facility's total annual production

Output-based standards (OBS) (cont'd)

- To the extent practicable, output-based standards (OBS) will be developed using a consistent approach across sectors
 - In most cases, OBSs will be set as a percentage of the production-weighted national average of emission intensity
- Intent is for stringency of OBSs to increase over time

Collection and submission of information

- Covered facilities will be required to provide information at multiple stages:
 - Registration/designation
 - When opening an account in the tracking system
 - Submission of compliance report
 - Part 2 also allows for the collection of information on GHGs more broadly in accordance
 - with order issued by the Minister
 - with regulations made by Governor in Council
- Facilities not covered by OBPS could also be required to provide information on their greenhouse gas emissions

Enforcement

- Separate enforcement regimes for Part 1 and Part 2 of the GGPPA
- The enforcement regime in Part 2 of GGPPA:
 - is modeled on enforcement provisions in other ECCC laws
 - *Canadian Environmental Protection Act, 1999, Environmental Enforcement Act*
 - underwent some revisions and modernizing
 - underwent some adaptations for carbon pricing

Enforcement (cont'd)

- Enforcement officers have powers of a peace officer as well as search and seizure powers under the *Criminal Code*
 - Part 2 of GGPPA also provides extensive inspection powers
- Enforcement officers' toolbox
 - administrative monetary penalties, compliance orders, injunctions, prosecution
- Powers of the court
 - Fine regime and sentencing provisions in Part 2 of GGPPA aligned with the *Environmental Enforcement Act*
 - Ex. categories of offenders and fine amounts; minimum fines for serious offences

Miscellaneous

- GGPPA also allows or provides for the following:
 - regulation-making authority to establish an offset credit system
 - person submitting information to Minister may request that it be treated as confidential
 - Minister may negotiate agreement respecting its administration and enforcement with any person, government in Canada or of a foreign state, international organization, etc.



Annex 2– The *Greenhouse Gas Pollution Pricing Act* at a glance

The Greenhouse Gas Pollution Pricing Act at a glance

Overview

- GGPPA seeks to establish a greenhouse gas emissions pollution pricing system composed of two elements: a fuel charge (Part 1) and an output-based pricing system (Part 2).
- It will apply in a province, territory or area listed on Schedule 1 of GGPPA.
- Direct revenues collected through GGPPA will be returned to the jurisdiction of origin.

Part 1 – Fuel Charge

- The fuel charge will be paid on fossil fuels (which emit greenhouse gases when used), at rates set out in GGPPA, such as:
 - Liquid fuels (e.g. gasoline, diesel fuel, aviation fuel)
 - Gaseous fuels (natural gas); and,
 - Solid fuels (coal, coke).
- The fuel charge will generally be payable by fuel producers or distributors.
- The fuel charge will apply to fuels used in jurisdictions where GGPPA applies, irrespective of whether fuels were produced in it, or brought into it.

Part 2 – Output-Based Pricing System (OBPS)

- The OBPS will apply to the excess greenhouse gas emissions of industrial facilities. These facilities will be exempted from the fuel charge.
- Facilities covered by the OBPS will have to:
 - register
 - open and maintain accounts in the tracking system,
 - report on greenhouse gas emissions, the applicable greenhouse gas emissions limit and activities related to greenhouse gas emissions, and
 - provide compensation for greenhouse gas emissions exceeding the greenhouse gas emissions limit (or earn tradeable surplus credits if their greenhouse gas emissions did not exceed the greenhouse gas emissions limit).