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Guidance on the pan-Canadian carbon pollution pricing benchmark

Introduction

Pricing of carbon pollution is central to the Pan-Canadian Framework on Clean Growth and Climate Change (the PCF). It is an effective, transparent and efficient way to reduce GHG emissions at lowest cost to consumers and business and to support innovation and clean growth. The federal government is committed to ensuring the provinces and territories have the flexibility to design their own policies and programs, enabling governments to move forward and to collaborate on shared priorities while respecting each jurisdiction's needs and plans.

The Government of Canada published the [Pan-Canadian Approach to Pricing Carbon Pollution](#) on October 3, 2016. That document outlines the principles on which the pan-Canadian approach to pricing carbon pollution is based, and states that a federal carbon pollution pricing backstop will begin to apply in all jurisdictions that do not have a carbon pollution pricing system in place that meets the elements of the Benchmark by 2018.

This document provides further guidance on the carbon pollution pricing Benchmark to support governments' efforts to have carbon pollution pricing in place throughout Canada in 2018.

Benchmark guidance

The carbon pollution pricing Benchmark includes the following elements. The October 3, 2016 Benchmark text is provided in bold. Where applicable, further guidance follows.

Timely introduction

All jurisdictions will have carbon pricing in place by 2018.

Additional guidance:

- The federal government will provide technical assistance to provinces and territories to support the design of their carbon pollution pricing systems, as requested, such as modelling GHG emission projections and economic analysis.

Common scope

Pricing will be based on GHG emissions and applied to a common and broad set of sources to ensure effectiveness and minimize interprovincial competitiveness impacts. At a minimum, carbon pricing should apply to substantively the same sources as British Columbia's carbon tax.

Additional guidance:

- At the time of the publication of the Benchmark in October 2016, British Columbia's carbon tax applied broadly across the economy, including but not limited to fuels that produce GHG emissions when combusted in transportation, heating, electricity, light manufacturing and industry. There are specific exemptions from B.C.'s carbon tax for the use of fuels where combustion does not occur (e.g., fuel used as a raw material in industrial processes, fuel used to remove natural gas liquid or impurities in the processing of natural gas). Other specific exemptions from B.C.'s carbon tax, as in effect in 2016, included marked gasoline and diesel used for certain agricultural purposes, and fuels sold for export.
- The goal of the Benchmark is to ensure that each carbon pollution pricing system applies to a broad base of emissions. Each jurisdiction should apply its carbon pollution pricing system to essentially the same sources and fuels as those to which British Columbia's carbon tax applies, to the extent to which the same sources exist in the jurisdiction.

Two systems

Jurisdictions can implement (i) an explicit price-based system (a carbon tax like British Columbia's or a hybrid system comprised of a carbon levy on fuels and performance-based emissions trading system like in Alberta) or (ii) a cap-and-trade system (e.g. Ontario and Quebec).

Legislated increases in stringency

Based on modelling, to contribute to our national target and provide market certainty.

For jurisdictions with an explicit price-based system, the carbon price should start at a minimum of \$10 per tonne in 2018 and rise by \$10 per year to \$50 per tonne in 2022.

Additional guidance on explicit price-based systems similar to Alberta's hybrid system:

- A hybrid system includes two components: a carbon levy (or tax) that applies to fossil fuels and an output-based pricing system that applies to designated facilities or sectors (which do not pay the levy on the fuel they use). The carbon pollution price in both components of a hybrid system – the fuel levy and the fixed payment per tonne of CO₂e that is a compliance option under the output-based pricing component – must be at least equal to the Benchmark carbon pollution price.
- The output-based pricing system component should not apply to fuel distributed to consumers.

- Jurisdictions may tailor the emission intensity standards in the output-based pricing component of their hybrid system to the circumstances of their sectors. These standards should be at levels that drive improved performance in carbon intensity over the 2018 to 2022 period, and should account for best-in-class performance. The reviews of carbon pricing committed to in the Pan-Canadian Framework will consider the adequacy of these emission intensity standards, accounting for their impacts on emissions, innovation, competitiveness and carbon leakage.
- The output-based pricing component should include best practices in emission trading systems internationally and in Canada (e.g., robust quantification methodologies; requirements for the third-party verification of compliance reports; transparent registries for the tracking of units; and strong reporting requirements).

Provinces with cap-and-trade need (i) a 2030 emissions-reduction target equal to or greater than Canada's 30 percent reduction target and (ii) declining (more stringent) annual caps to at least 2022 that correspond, at a minimum, to the projected emissions reductions resulting from the carbon price that year in price-based systems.

Additional guidance on cap-and-trade systems:

- Caps must cover a broad base of emissions comparable to BC's carbon tax, decline in time and result in incremental reductions, and cannot be adjusted upwards in order to accommodate large new activities.
- Jurisdictions can set an annual or a multi-year compliance period.
- The emission limits set by the caps for 2018 to 2022 should be less than or equal to a modeled estimate of the emissions that would have resulted in that jurisdiction from applying the Benchmark carbon price during that period to the sources covered by the cap. The baseline for modeling will be an accurate and recent projection, informed by Canada and the jurisdiction.
- Cap-and-trade systems should include best practices in use in cap-and-trade systems internationally and in Canada (e.g., robust quantification methodologies; requirements for the third-party verification of compliance reports; transparent registries for the tracking of units; and strong reporting requirements).

Revenues remain in the jurisdiction of origin

Each jurisdiction can use carbon pricing revenues according to their needs, including to address impacts on vulnerable populations and sectors and to support climate change and clean growth goals.

Federal backstop

The federal government will introduce an explicit price-based carbon pricing system that will apply in jurisdictions that do not meet the Benchmark. The federal system will be consistent with the principles ¹ and will return revenues to the jurisdiction of origin.

Additional guidance: As committed to in the PCF, the federal government will:

- work with the territories to find solutions that address their unique circumstances, including high costs of living and of energy, challenges with food security, and emerging economies; and
- engage Indigenous Peoples to find solutions that address their unique circumstances, including high costs of living and of energy, challenges with food security, and emerging economies.

Five-year review

The overall approach will be reviewed by early 2022 to confirm the path forward, including continued increases in stringency. The review will account for progress and for the actions of other countries in response to carbon pricing, as well as recognition of permits or credits imported from other countries.

Additional guidance:

- **Five-year review:** Federal, provincial and territorial governments will work together to establish the approach to the review of carbon pollution pricing, including expert assessment of stringency and effectiveness that compares carbon pollution pricing systems across Canada, which will be completed by early 2022 to provide certainty on the path forward.
- **An interim report:** will be completed in 2020, and reviewed and assessed by First Ministers.
- **EITE Review:** as an early deliverable, the federal, provincial and territorial governments will work together to assess approaches and best practices to address the competitiveness of emissions-intensive, trade-exposed sectors. This work will start in 2017.

Reporting

Jurisdictions should provide regular, transparent, and verifiable reports on the outcomes and impacts of carbon pricing policies.

Additional guidance: the Federal government will:

- continue to collaborate with provinces and territories on efforts to track and report GHG emissions in a consistent way across the country;
- take regular stock of progress under carbon pollution pricing in order to report to Canadians and to inform Canada's future commitments in accordance with the Paris Agreement;
- engage with external experts to provide informed advice to First Ministers and decision makers, assess the effectiveness of measures, including through the use of modelling, and identify best practices; and
- collaborate with provincial and territorial governments, through the Canadian Council of Ministers of Environment to examine:
 1. options for a pan-Canadian GHG offset framework, and
 2. international mitigation opportunities including the scope for ongoing recognition by Canadian jurisdictions of credits associated with reductions occurring in other countries.

Footnotes

- 1 The principles, based on those proposed by the Working Group on Carbon Pricing Mechanisms.
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