



MEMORANDUM NOTE DE SERVICE

TO / À: Minister of Finance

SIGNED BY MINISTER

FEB 24 2017

FROM / DE: Paul Rochon

|  |                                 |
|--|---------------------------------|
| Security classification / Classification de sécurité     | Loi sur l'accès à l'information |
| SECRET   |                                 |
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| Our file / Notre référence                               |                                 |
| Your file / Votre référence                              | 2017FIN448544                   |
| Date   | FEB 21 2017                     |

SUBJECT / OBJET: Key Design Features of the Federal Carbon Pricing Backstop

For decision by March 3, 2017. This note provides an overview of the proposed federal carbon pricing backstop approach, including the core design features of the carbon levy and the output-based pricing system.

[Redacted section]

s.21(1)(a) s.21(1)(b)

s.69(1)(g) re: (d)

The memo seeks your approval on the proposed backstop approach and the inclusion of these details in a consultation paper on the backstop, which is planned to be released after the Budget. The consultation paper will be drafted based on the decisions taken and will be provided to you for approval under a separate cover.

Issue

s.69(1)(g) re: (e)

Further to our note "Federal Carbon Pricing Backstop" sent to you on December 2, 2016 (2016FIN446040, attached)

this note presents the design features of the backstop and discusses policy issues that need to be considered in advance of the release of the consultation paper.

Background

Carbon Pricing in the Pan-Canadian Framework on Clean Growth and Climate Change

At the First Ministers' Meeting on December 9, 2016, most provinces and territories (P/Ts) agreed to implement the Pan-Canadian Framework on Clean Growth and Climate Change

SADM: Andrew Marsland (613-369-3739) Director: Sean Keenan (613-369-3766)

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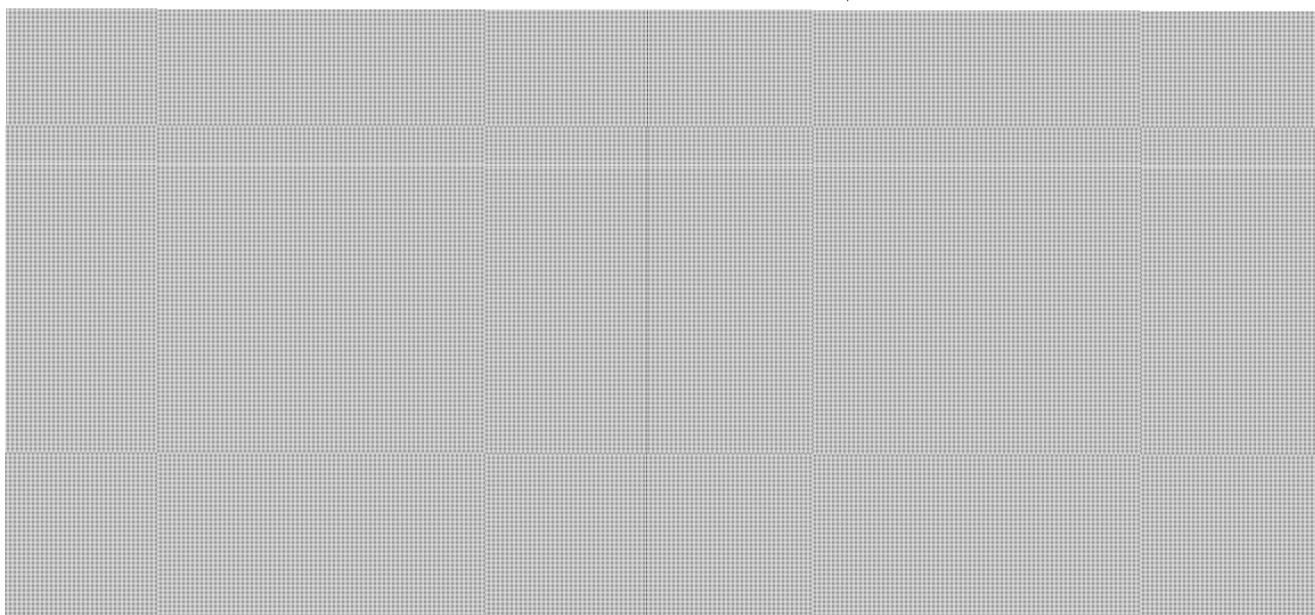


(hereafter referred to as PCF).<sup>1</sup> The PCF includes a pan-Canadian approach to pricing carbon pollution, such that carbon pricing will be implemented across the country by 2018.

Under the PCF, jurisdictions have the flexibility to implement either an explicit price-based system (a carbon tax such as the one in British Columbia (B.C.), or a hybrid approach composed of a carbon levy and an output-based pricing system such as in Alberta) or a cap-and-trade system (such as those in Quebec and Ontario).

The PCF outlines a federal benchmark to ensure that carbon pricing applies to a broad set of emission sources across Canada, with increasing stringency over the period from 2018 to 2022. A federal carbon pricing backstop will apply in jurisdictions that do not meet the benchmark. Revenues from carbon pricing will remain in the jurisdiction in which they originate. The PCF includes the following details regarding the benchmark:

- Carbon pricing will need to be applied to a common and broad base of sources of greenhouse gas (GHG) emissions, which will be substantively the same as the sources currently subject to B.C.'s carbon tax.
- For price-based systems, the direct price on carbon will need to be at least \$10 per tonne of GHG emissions (in terms of carbon dioxide equivalent<sup>2</sup> (CO<sub>2</sub>e)) in 2018 and increase by \$10 per tonne annually to \$50 per tonne in 2022.
- Jurisdictions using a cap-and-trade system must have (1) a jurisdiction-wide target for GHG emission reductions equal to or greater than Canada's (i.e., a reduction of 30 per cent or more below 2005 levels by 2030); and (2) an increasingly stringent emissions cap that results in emissions from the capped sources being no greater than what would have been achieved by the benchmark price.



<sup>2</sup> CO<sub>2</sub>e is a measure that takes into account the Global Warming Potential of GHGs in relation to that of CO<sub>2</sub>.

s.14

s.18(d)

s.21(1)(a)

s.21(1)(b)

[Redacted]

s.14

s.18(d)

s.21(1)(a)

s.21(1)(b)

The overall approach is to be reviewed by 2022 (referred to as the “five-year review”) to confirm the path forward, including continued increases in stringency in future years and expert assessment of stringency and effectiveness of the various carbon pricing systems across Canada.

an interim report is to be completed in 2020 that assesses approaches to carbon pricing in jurisdictions across Canada as well as best practices to address the competitiveness of emissions-intensive, trade-exposed sectors (EITEs).

[Redacted]

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s.69(1)(g) re: (e)

**Page 42**

**is withheld pursuant to sections  
est retenue en vertu des articles**

**14, 18(d), 21(1)(a), 21(1)(b), 69(1)(g) re: (e), 69(1)(g) re: (f)**

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**14, 18(d), 21(1)(a), 21(1)(b)**

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**18(d), 21(1)(a), 21(1)(b)**

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**14, 18(d), 21(1)(a), 21(1)(b)**

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**13(1)(c), 14**

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**18(d), 21(1)(a), 21(1)(b)**

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**18(d), 21(1)(a), 21(1)(b), 69(1)(g) re: (e)**

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**18(d), 21(1)(a), 21(1)(b)**

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**21(1)(a), 21(1)(b)**

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**18(d), 21(1)(a), 21(1)(b), 69(1)(g) re: (e)**

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**18(d), 21(1)(a), 21(1)(b)**

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Department of Finance  
Canada

Ministère des Finances  
Canada

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| Signature by / For information of<br>À signer par / Pour l'information de  |                             |
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| Gervais Coulombe/369-3773 <i>GC</i>  |                             |
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| Christopher Brodtkin <i>CB</i>   |                             |
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| Assistant Deputy Minister<br>Sous-ministre adjoint   | Rick Stewart <i>RS</i>      |
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| Associate Deputy Minister & G7<br>Deputy for Canada<br>Sous-ministre délégué et représentant<br>du Canada au G7              | Rob Stewart                 |
| Associate Deputy Minister<br>Sous-ministre délégué   | Chris Forbes                |
| Deputy Minister<br>Sous-ministre   | Paul Rochon                 |
| Remarks / Remarques:   |                             |
| File no. / No de dossier   | Date                        |
| 2017FIN448544  |                             |

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| Associate Deputy Minister<br>Sous-ministre déléguée   | (Sign on behalf of DM )<br>(Signer au nom du SM) | <input type="checkbox"/> |
| Assistant Deputy Minister<br>Sous-ministre adjoint(e)   | (Sign on behalf of DM )<br>(Signer au nom du SM) | <input type="checkbox"/> |

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