



SASKATCHEWAN  
CHAMBER *of* COMMERCE

# FEDERAL CARBON PRICING BACKSTOP IMPOSITION: WHAT SASKATCHEWAN BUSINESSES NEED TO KNOW

October 31, 2018

## Introduction

On October 23rd 2018, Prime Minister Justin Trudeau announced further details around the federal carbon pricing backstop plan. During his speech, Prime Minister Trudeau stated the federal backstop plan will be applied, either in whole or in part, to those provinces whose own climate change policies do not conform to federal standards. Elements of the federal backstop plan will be imposed on Ontario, New Brunswick, Manitoba, and Saskatchewan.

The *Greenhouse Gas Pollution Pricing Act*, which was adopted on June 21, 2018, is the enabling legislation for the federal carbon pricing backstop plan. The Government of Canada will direct all carbon pricing-related proceeds back to households in the form of a rebate called the Climate Action Incentive. Businesses, cities, Indigenous communities, and public institutions will also receive funding to encourage energy efficiency and other carbon emissions reducing measures.

## What is the Federal Carbon Pricing Backstop Plan?

The federal carbon pricing backstop plan is comprised of two main components. The first is a broad-based **carbon levy on fossil-fuel combustion**. It will be paid early on in the supply chain by fuel producers and distributors with the expectation that those additional costs will be passed along to consumers in the form of higher fuel prices. The fuel charge regime is expected to come into effect in **April 2019**. Since the province does not currently have a fuel charge regime of any kind, this particular component of the federal backstop will be imposed in whole.

For most people in Saskatchewan, this will result in an additional cost of almost 4.5 cents per litre of gasoline and an additional cost of almost 4 cents per cubic metre of natural gas for home heating for 2019. Fuel charge rates will increase over time. A complete list of rates for a variety of combustible fuels can be found [here](#). Because GST cannot be exempted from the carbon price, federal GST will be levied on top of the fuel charge as well. It is important to note that fishers and farmers will be fully exempted from fuel charges related to eligible fishing and on-farm activities. A full exemption from carbon pricing will be granted to diesel-fired electricity generation in remote and northern communities as well.

The second component of the federal backstop plan is an output-based pricing system

(OBPS) that establishes carbon-intensity (amount of carbon emissions emitted per unit of production) standards for large industrial emitters. Because the Government of Saskatchewan already has an existing output-based performance standard (OBPS) outlined in its climate change strategy, this component of the federal backstop plan will be applied to the emission sources not covered by the provincial OBPS. The federal OBPS is scheduled to come into effect January **2019**.

## Federal vs Provincial OBPS: Similarities and Differences

Whereas the provincial OBPS exempts electricity generation and natural gas transmission pipelines, the federal OBPS will apply to both electricity generation and natural gas transmission pipelines effective January 2019. The provincial OBPS applies to large industrial facilities that emit **25,000 tonnes or more** of carbon dioxide equivalent (CO<sub>2</sub>e) emissions per year, exempting electricity generation and natural gas.

The federal OBPS on the other hand, applies to large industrial emitters that emit **50,000 tonnes or more** of CO<sub>2</sub>e per year, with electricity generation and natural gas transmission pipelines being subject to the federal OBPS. The provincial OBPS will cover about 58% of Saskatchewan's total annual reported emissions. A list of the sector-specific performance targets under the proposed provincial OBPS can be found [here](#).

While the provincial and federal OBPS systems differ in terms of their annual CO<sub>2</sub>e emission thresholds and whether or not emissions resulting from electricity generation and natural gas transmission pipelines are covered, both the provincial and federal OBPS share in common the following:

- Annual sector-specific performance targets (although individual sector-specific performance targets may vary among the provincial and federal OBPS systems)
- Regulated emitters are provided with multiple compliance options (i.e. reduce emissions intensity to meet the performance standard; outperform the performance standard and earn/sell a credit; purchase offsets from non-regulated activities if unable to meet performance standard; pay into technology fund at an established rate)
- Industrial facilities emitting **10,000 tonnes or more** of CO<sub>2</sub>e must annually report their emissions to both the Saskatchewan Ministry of Environment **and** Environment Climate Change Canada's (ECCC) single-window [Greenhouse Gas Reporting Program](#) (GHGRP).

While all regulated emitters must report their emissions, not all emitters (10,000 - 24,999 tonnes of CO<sub>2</sub>e annually) that are required to report will fall under the provincial or federal OBPS. Annual emissions must be audited and verified by a qualified third-party. Please see a bulletin released by the Saskatchewan Chamber of Commerce from March 2018 for more information [here](#).

## How Will the Proceeds of the Federal Backstop Plan be Recycled?

All revenue generated as a result of carbon pricing will be directed back into the jurisdiction of origin by the Government of Canada. Most of the revenue generated will be returned to Saskatchewan households in the form of a tax-free rebate called

the *Climate Action Incentive*. Saskatchewan households will receive payments after filing their tax returns through the Canada Revenue Agency.

Household rebate payments will increase annually to reflect increases in the dollar per tonne price on carbon emissions from 2019 – 2022. An additional supplement of 10% of the payment amount will be provided to Saskatchewan households located in small or rural communities (outside of Regina and Saskatoon) in recognition of their increased energy needs and reduced access to low-carbon transportation options.

The Government of Canada estimates that carbon pricing will cost the average household in Saskatchewan \$403 in 2019, but that same household will receive a rebate payment of approximately \$600. According to the Government of Canada, most households are expected to be financially better off as a result of the rebate. The remaining 10% of all carbon-pricing related proceeds will be directed to provide support for particularly affected sectors, like small and medium-sized enterprises (SMEs), schools, hospitals, Indigenous communities, post-secondary institutions, non-profit organizations, etc.

## Timelines and Next Steps

Provinces and territories had until the September 1, 2018 deadline to outline their climate change plans. While the Government of Saskatchewan did communicate their Made-in-Saskatchewan climate change strategy to the Federal Minister of Environment and Climate Change, the Province refused to formally submit the plan for federal review. The Government of Saskatchewan maintains the Government of Canada does not have the constitutional authority to impose such a tax and is still pursuing litigation.

Regulatory instruments related to the federal backstop plan will be published in the Canada Gazette, Part II on October 31, 2018. Detailed, sector-specific emissions quantification, verification, and reporting requirements are forthcoming. Regulated facilities that meet the published criteria will need to register with Environment and Climate Change Canada. Registration will open on November 1, 2018. More details on Environment and Climate Change Canada's [website](#) will be available on October 31, 2018. Additional draft regulations on the federal OBPS will be circulated for public comment later this fall.

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