Canada's carbon pricing still needs greater certainty to unlock decarbonization investments

Canada is a leader at using carbon pricing to reflect the value of reduced emissions, and has made important proposals to develop carbon contracts for differences to improve the certainty and investability of the carbon pricing system. Canada now needs to act with greater urgency on its proposals to deliver that certainty.

One proposal is to use the $15 billion Canada Growth Fund to deliver an initial round of contracts for differences to backstop the value of carbon credits, and perhaps the carbon price. Those contracts are urgently needed in 2023, and should be finalized to help get Canada on track to achieve its 2030 climate target, compete with the US to grow its low-carbon industry and supply chains, and support long-term sustainable jobs and prosperity for Canadians.

Canada also proposed to consult on the design of a broader contracts for difference system. Such a program is also urgently needed. Canada should deliver on this consultation in 2023 and set ambitious timelines to design and implement that system. Canada is taking an important, global leadership role in developing this broad program. And, by launching a limited set of contracts prior to developing the broad program, is starting off on the right foot with a learn by doing approach that balances the urgency to reduce Canada's emissions, compete with the US for investments, and make measured bets then scale and adapt innovative policies. Canada should also commit to knowledge sharing about details of these contracts, which projects they are with, program performance reporting and lessons learned, so Canadians and other jurisdictions can learn and benefit from Canada's leadership.

Since Canada's carbon pricing system is a combination of federal, provincial and territorial policies, Canada should engage with the provinces and territories as it designs contracts for differences. Doing so recognizes their shared stakes in: reducing emissions; attracting investment and sustainable jobs; and sound fiscal policy. Making existing carbon pricing policies more investable is more fiscally prudent than offering new funding or tax breaks.

Recommended Investment:

The Canada Growth Fund should urgently execute on its mandate to "help transform and grow Canada's economy at speed and scale on the path to net-zero" using its current $15 billion budget, with an initial round of contracts for differences signed in 2023. Contracts should primarily focus on difficult to decarbonize sectors with low stranded asset risk, and use competitive or targeted contract calls to drive cost-efficient emissions reductions across the economy. The program should report on its role in subsidizing sectors, program costs and revenues, lessons learned, contract details, and emissions reduction achieved. To enable these contracts, federal and provincial carbon pricing systems must make credit prices public information, their stringency tightening rates must predictably align with Canada's commitment to net-zero emissions by 2050, and transparent processes are needed to monitor and make recommendations on credit market management, such as a national carbon credits exchange commission. [ECCC, FIN]

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