Canada's industrial carbon pricing system, and complementary mechanisms

Canada's industrial carbon pricing system is intended to reflect the cost of pollution, ensuring that industrial emitters pay for the costs of emissions. It provides price signals needed by industry to invest in significant decarbonization projects. Its stability and predictability is key to stimulating investment in clean technology and large scale projects, which often take years to evaluate and implement. Established in 2022, the Canada Growth Fund can complement and supplement the industrial carbon pricing system in facilitating the significant investments required to decarbonize all sectors. The fund is also meant to serve as the principal federal entity to issue Carbon Contracts for Difference (CCfDs), or carbon credit offtake agreements, to de-risk investments.

Recommendations [ECCC, FIN, NRCan]**:**

- Driving emissions reductions through strong industrial carbon pricing is smart fiscal policy, and Budget 2025 needs to commit to a fulsome assessment of the federal output-based pricing system (OBPS) and by extension, equivalent provincial systems, to ensure the long-term integrity of credit markets. This assessment is set to conclude in 2026, and should begin in 2025. Ensuring adequate demand in credit markets, and controlling for oversupply, is key to driving continuous improvements in emissions performance, but also to ensuring against undue public liability from the market guarantees inherent in CCfDs.
- Now that the Canada Growth Fund is increasing its momentum, Budget 2025 should set more aggressive targets for the Fund to deliver on its objectives and benefit the Canadian economy. Those investments are urgently needed in 2025 and beyond, and should be utilized to the greatest extent possible to help get Canada on track to achieving its 2030 climate targets, competing with the US to grow its low-carbon industry and supply chains, and supporting long-term sustainable jobs and prosperity for Canadians while ensuring returns for the fund's investors. We caution that if the OBPS review does not produce the conditions for long-term integrity of credit markets, then the possibility of a government backstop of certain CCFD liabilities of the Canada Growth Fund, as highlighted in 2024 budget, may become essential, though they may represent undue risk to taxpayers.
- To reduce public liabilities for carbon contracts and ensure industrial carbon pricing continues to drive economically efficient emission reductions in the Canadian economy, federal and provincial carbon pricing systems must make credit prices public information, and their stringency-tightening rates must predictably align with Canada's commitment to net-zero emissions by 2050. Engagement on post-2030 OBPS design should begin in late 2024, and transparent processes should be developed to monitor and make recommendations on credit market management, such as a national carbon credits exchange commission.

Contacts

Marie-Christine Bouchard – mcb@pembina.org
Aaron Cosbey – acosbey@iisd.ca

Photo: Patrick Hendry