

Intelligence MEMOS



From: Farah Omran and Grant Bishop
To: The Honourable Bill Morneau, Minister of Finance
Date: November 21, 2018
Re: **OTTAWA MUST CLEAR THE AIR ON DETAILS OF ITS CARBON PRICING BACKSTOP**

Last month, the Trudeau government announced its [plans](#) to implement a carbon-pricing backstop for provinces that do not implement a carbon price in line with federal standards. Specifically, the federal government intends to impose carbon pricing in New Brunswick, Ontario, Manitoba and Saskatchewan. As exhibited in our recent [report](#) by Tracy Snoddon, the federal carbon pricing backstop will draw significant revenues from these provinces – representing approximately a potential \$5 billion inflow into federal coffers. In its fall fiscal update today, you should disclose its expectations for these revenues and clarify how these funds will be recycled.

For provinces subject to the backstop, the federal government promises 90 percent of all revenues from the fuel surcharge on fossil fuels will be transferred to households in the form of a “climate action incentive payment.” The average rebate due next year ranges from \$256 for a family of four in New Brunswick to \$609 in Saskatchewan. Ottawa says the average household in these provinces will receive more in rebates than it will pay in new carbon levies.

The backstop also includes an output-based pricing system (OBPS) for large emitters, but the federal government has advised that it [will not promulgate regulations for the OBPS](#) until after the backstop is implemented on January 1. Ottawa did commit, however, that any OBPS revenues will also be recycled to the source province (although it has not yet disclosed how). Notably, Ottawa recently indicated that the OBPS will apply a [fuel-specific benchmark for electricity generation](#) (in contrast with the best-gas benchmark in Alberta).

We expect the 2019 fall fiscal update to include a line of sight on the federal government’s estimates for the backstop revenues and outlays on the climate action incentive payments. As well, Ottawa should commit to transparency by providing Canadians with regular updates as the backstop takes effect – and the revenues roll in and out.

Note that Ottawa already announced its formula for allocating its climate action incentive payments for families based on the revenue it expects to raise in the backstop provinces. However, if the actual proceeds collected for a province differ from these federal projections, Ottawa [commits to adjust the disbursements](#) on future climate action incentive payments to that province so that all source revenues are ultimately returned.

Ottawa plans to set aside the remaining 10 percent of the fuel surcharge revenues for measures to support small and medium-sized businesses, as well as municipalities, universities, schools and hospitals (the so-called MUSH sector). Ottawa has yet to say how it plans to offset the impacts on businesses and the MUSH sector – or how much of the fuel surcharge revenues will accrue from which sources. Someone is paying for the transfers that households will receive – and the climate action incentive payments may be a channel for a substantial transfer from businesses and MUSH to households. Ottawa must be transparent about this dynamic.

The rollout of pan-Canadian carbon pricing remains a major wild card. Ottawa must provide greater details on its spending plans for its backstop proceeds and how the OBPS will work. The federal government needs to provide Canadians with such clarity in its fall fiscal update and 2019 budget.

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