

# Role of Carbon Markets Across North America

## Canada Carbon Market Landscape

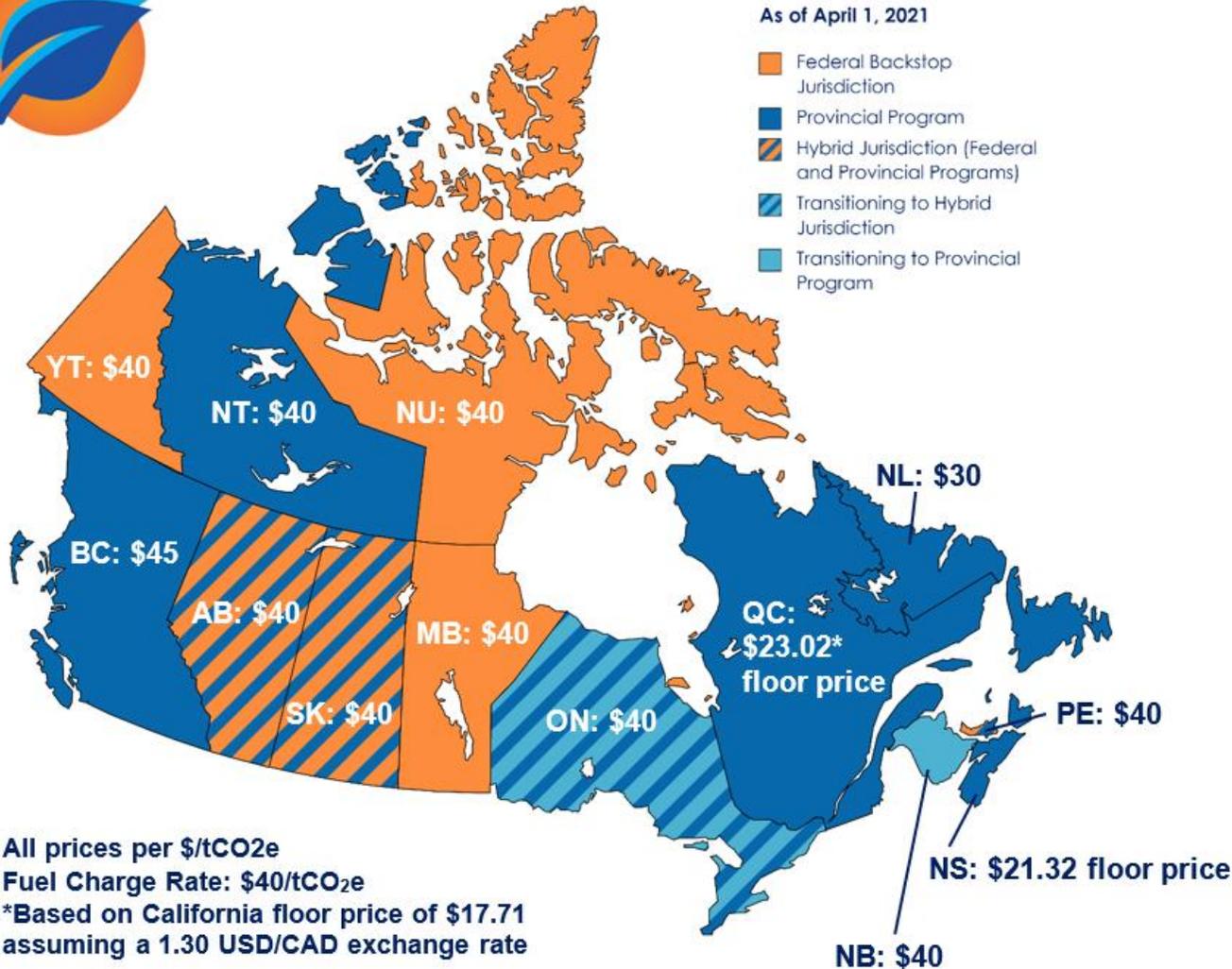
April 22, 2021





# 2021 Canadian Carbon Pricing

## A Patchwork of Pricing and Programs



|   | Saskatchewan   | Ontario   | Alberta  |
|---|--|---|--|
| <b>Provincial Appeals Court Decisions</b> | 3-2 in favour of Federal government<br><b>GGPPA is Constitutional</b>  | 4-1 in favour of Federal government<br><b>GGPPA is Constitutional</b> | 4-1 in favour of Alberta provincial government<br><b>GGPPA is Unconstitutional</b> |
| <b>Supreme Court Hearing Decision</b>     | On March 25th, the Supreme Court of Canada (SCC) ruled that federal carbon pricing is constitutional in a 6-3 decision<br><b>GGPPA is Constitutional</b> |   |  |

### Outcome:

- Confirms the federal government has the authority to set minimum prices for GHG emissions
- Supports new Federal Climate Plan
- Provinces have flexibility in meeting the standard
- Carbon pricing in Canada still faces political uncertainty
- Ontario will continue to move forward with its EPS program for industrial emitters.



# Canada's Enhanced Climate Ambition

## Increasing Carbon Price and New NDC

| Year | Carbon Price | Natural Gas (per m3) | Propane (per L) | Gasoline (per L) | Diesel (per L) |
|------|--------------|----------------------|-----------------|------------------|----------------|
| 2019 | \$20         | \$0.0391             | \$0.0310        | \$0.0442         | \$0.0537       |
| 2020 | \$30         | \$0.0587             | \$0.0464        | \$0.0663         | \$0.0805       |
| 2021 | \$40         | \$0.0783             | \$0.0619        | \$0.0884         | \$0.1073       |
| 2022 | \$50         | \$0.0979             | \$0.0774        | \$0.1105         | \$0.1341       |
| 2023 | \$65         | \$0.1273             | \$0.1007        | \$0.1437         | \$0.1743       |
| 2024 | \$80         | \$0.1567             | \$0.1240        | \$0.1768         | \$0.2145       |
| 2025 | \$95         | \$0.1861             | \$0.1473        | \$0.2100         | \$0.2547       |
| 2026 | \$110        | \$0.2155             | \$0.1706        | \$0.2431         | \$0.2949       |
| 2027 | \$125        | \$0.2449             | \$0.1939        | \$0.2763         | \$0.3351       |
| 2028 | \$140        | \$0.2743             | \$0.2172        | \$0.3094         | \$0.3753       |
| 2029 | \$155        | \$0.3037             | \$0.2405        | \$0.3426         | \$0.4155       |
| 2030 | \$170        | \$0.3331             | \$0.2638        | \$0.3757         | \$0.4557       |

### Strengthened Climate Plan

- On December 11, 2020, the federal government published '[A Healthy Environment and A Healthy Economy](#)'
- 64 new and updated measures and \$15 billion in new funding initiatives support Canada's Net-Zero by 2050 target.
- Proposal to increase the annual carbon price will increase by \$15/tCO<sub>2</sub>e, reaching \$170/tCO<sub>2</sub>e in 2030.
- Provincial systems with an explicit carbon price are expected to follow this pricing schedule – based on current federal stringency criteria

### Enhanced NDC

- April 22, 2021, Canada announced it will enhance emissions reduction target under the Paris Agreement - Nationally Determined Contribution (NDC)
- Reduce emissions by 40-45% below 2005 levels, by 2030



# The Ontario Experience

## Stroke of Pen Risk and Market Uncertainty

### Cap & Trade

- **Introduced January 2017 and linked with WCI Cap & Trade market January 2018**
- June 2018 Ford government announces, 'End to Ontario's Cap-and-Trade Carbon Tax' and an 'orderly wind down'
- Ontario no longer participating in joint auctions, ban on allowance trading, accounts blocked
- "Orderly wind down" led to market and investment uncertainty.

### Federal Backstop/OBPS

- **Enforced January 1, 2019 due to the removal of Cap & Trade in Ontario – First carbon pricing payment ever last week**
- Federal Backstop was expected to remain in whole (Fuel Charge and OBPS) in Ontario until 2022 based on ECCC commitments to provide market and regulatory certainty
- September 2020 Federal Ontario governments announced removal of Federal OBPS to be replaced with Ontario EPS

### Emissions Performance Standards

- **The EPS will come into effect on January 1, 2022**
- EPS will only replace the Federal OBPS stream, Federal Fuel Charge will remain in Ontario



# Regulatory and Political Risks

## More Changes Ahead?

### Regulatory Risk

- Stroke-of-pen risk: Ontario has been subject to two carbon pricing programs in past three years, and is currently transitioning to a third one
- Delayed program development - the federal offset system for the OBPS has not been implemented yet, and we are in the third compliance period
- What will the federal carbon pollution stringency benchmark look like post-2022?
- **Cap & Trade** in more jurisdictions?

### Political Risk

- New Federal Conservative climate plan includes carbon pricing
- Should federal Liberals lose next election, what will carbon pricing in Canada look like in 2030?
- Ontario NDP have promised to bring back Cap & Trade
- Uncertainty doesn't lead to emission reductions!



# Federal GHG Offset System

## Development and Key Updates

### Federal GHG Offset System Timeline

- Draft offset regulations published March 2021
- Final regulations expected fall 2021

### Priority Protocols

*To be developed throughout 2021*

- Advanced Refrigeration Systems
- Improved Forest Management
- Landfill Methane Management – in early stages of development
- Enhanced Soil Organic Carbon

