

Intelligence MEMOS



From: Farah Omran
To: Canadian Taxpayers
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Re: **HOW THE NEW CARBON BACKSTOP WORKS**

The federal government announced its plan this week for the federal carbon pricing system, outlining the treatment of the revenues in provinces that do not comply with Ottawa's benchmark requirements and where the federal carbon-pricing backstop system will apply.

Let's examine the purpose, pitfalls for businesses and promise of the federal plan.

Households will receive direct payments from Ottawa that will return almost all revenues from the provinces where its backstop is imposed. Based on federal estimates, most households will receive more in rebates than they will pay in carbon costs.

The new system is comprised of two parts: the output-based pricing system (OBPS), and a regulatory fuel charge. The backstop will be imposed in Ontario, New Brunswick, Manitoba, and Saskatchewan, and 90 percent of the fuel charge will be returned directly to households in "climate action incentive payments." This generally aligns with the [C.D. Howe Institute's recent report](#), which recommended that, for provinces which do not enact comparable carbon pricing or voluntarily request the backstop, the federal government should rebate all carbon revenues collected in that province on an equal per-capita basis to the province's residents.

The payments are calibrated on various family sizes and circumstances. For Ontario, they are calculated based on a rebate of \$153 for the first adult, \$77 for the second adult, and \$38 for each child in the family. Single parents will instead receive \$77 for the first child. These payments will also vary based on regional and household differences, such as the types and quantities of the fuels consumed in provinces, and the change in household behaviours and energy-use. For Ontario, Ottawa estimates the amount received by the average household at \$300 in 2019, increasing to \$697 by 2022. Households in small and rural communities will get an extra 10 percent to take into account their energy circumstances, which frequently include lack of transit options and increased home heating costs.

Ottawa expects most households to receive more in these payments than they pay in carbon costs. That is because both Canadian households and businesses will pay the fuel charge, and equal rebates to households would then result in most receiving a larger amount than the costs they incur. Ottawa estimates these costs (direct and indirect) for the average Ontario household at \$244 in 2019, increasing to \$564 by 2022.

However, the program involves some redistribution between higher and lower income households: higher income households will carry a larger burden of these costs as they emit more carbon and consume more energy-intensive goods and services. A [Clean Prosperity recent report](#) estimates an Ontario household with income of \$20,000 or less will pay \$155 in energy costs for 2019, whereas a household with income over \$150,000 or more will pay \$348.

While possibly good news for the average Canadian household, this is not a cost-free plan. Carbon pricing will increase many businesses' operating costs and will disrupt present ways of doing business. Depending on their GHG intensity, businesses could be the net payers into the system. Here, the impacts remain to be seen.

Nevertheless, rebating carbon revenues helps mitigate the impacts on the households' standards of living. This plan could prove to be an important step towards an efficient nation-wide emissions reduction system. It proposes an appropriate use of the backstop revenues. It will encourage households to reduce their GHG emissions footprint while helping reduce the burden of adjusting to it.

Farah Omran is a junior policy analyst at the C.D. Howe Institute.

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