



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## Standing Committee on Finance

---

FINA • NUMBER 148 • 1st SESSION • 42nd PARLIAMENT

---

EVIDENCE

**Tuesday, May 1, 2018**

—  
**Chair**

**The Honourable Wayne Easter**



## Standing Committee on Finance

Tuesday, May 1, 2018

• (0850)

[English]

**The Chair (Hon. Wayne Easter (Malpeque, Lib.)):** I call the meeting to order, as we continue our hearings on Bill C-74, the budget implementation act for the February 27, 2018, budget.

With us this morning, from the Department of the Environment, we have the Associate Assistant Deputy Minister, Mr. Moffet; as well as Mr. Philippe Giguère, Manager, Legislative Policy. From the Department of Finance, we have Mr. Pierre Mercille, Sales Tax Division; Mr. David Turner, Tax Policy Analyst; and Mr. Gervais Coulombe, Director, Sales Tax Division.

I think we've had the remarks previously. Does anybody want to add anything before we start the questions?

On the greenhouse gas pollution pricing act, part 5 of the budget implementation act, are there no opening statements? All right, going to questions.... Do I see none?

Mr. Dusseault.

[Translation]

**Mr. Pierre-Luc Dusseault (Sherbrooke, NDP):** Thank you, Mr. Chair.

My first question is for Mr. Coulombe perhaps. That said, I don't want to decide for the witnesses.

My question is about excise duty on cannabis, HST and PST, excise tax or sales tax. I'd like to know how the exemption mechanism would work in the case of medical marijuana. I'm talking about medical use, with a prescription.

[English]

**The Chair:** We're dealing with the greenhouse gas pollution pricing act now. We'll stick to part 5, the greenhouse gas pollution pricing act.

**Mr. Pierre-Luc Dusseault:** Oh, that's first.

**The Chair:** We'll go back and forth on these questions in any event, so hold that question until we can get somebody to speak on the cannabis section of the bill.

[Translation]

**Mr. Pierre-Luc Dusseault:** Right.

[English]

**The Chair:** We'll go to Mr. Poilievre and then Mr. McLeod next.

**Hon. Pierre Poilievre (Carleton, CPC):** Has the government calculated how much this tax, when fully implemented, will cost the median-income Canadian family?

**Mr. John Moffet (Associate Assistant Deputy Minister, Environmental Protection Branch, Department of the Environment):** Yesterday, as you all likely know, the government released a study titled "Estimated Results of the Federal Carbon Pricing System". That study explains that it's actually not possible to do precisely the calculation you just asked about, because first, the final impact on Canadian households will depend on what choices provinces and territories make about the system they design; and second, the way they use their revenues in those decisions has not yet been made.

The study that was released yesterday provided one scenario in which the federal carbon pricing system was applied in all nine jurisdictions that currently don't have a pricing system, but we know that will not be the case. Many provinces have already indicated that they intend to develop their own pricing system, and until we know the details of their systems, we will not be able to estimate the impacts of those systems.

**The Chair:** I haven't seen that study. What is the name of the study and can you make it available to the clerk?

**Mr. John Moffet:** Yes, absolutely. The study is entitled "Estimated Results of the Federal Carbon Pricing System". Minister McKenna released it yesterday, and it's available online, but I'll certainly send a link to the clerk.

**The Chair:** Mr. Poilievre.

**Hon. Pierre Poilievre:** We're debating the budget implementation act, which would implement a federal carbon tax in provincial jurisdictions that don't have their own. Where that federal carbon tax is implemented based on the \$50 a tonne rate it will reach in 2022, how much will that cost the average Canadian household?

• (0855)

**Mr. John Moffet:** Again, what we do know is what the cost impacts will be for various commodities. For example, a \$10-a-tonne levy translates to about 2¢ a litre of gas.

**Hon. Pierre Poilievre:** Sorry, I don't mean to interrupt, but the question relates to the cost per household. We have already gone through the fact that gas prices will go up by roughly 11¢ once this tax is fully implemented. We also know that household home heating bills will go up by about \$200.

The question—and you do have the answer—is how much will it cost the average Canadian household to pay the total tax on all goods?

**Mr. John Moffet:** We currently don't have that estimate. I think, again, the impact on households will depend on how that jurisdiction decides—

**Hon. Pierre Poilievre:** No, the specific question was—

**The Chair:** Mr. Poilievre, let Mr. Moffet answer. You'll have ample time.

**Mr. John Moffet:** I was just going to repeat that the impact will depend on how that jurisdiction uses the revenues.

**Hon. Pierre Poilievre:** I'm talking about the federal jurisdiction, which is your domain.

**Mr. John Moffet:** Yes.

**Hon. Pierre Poilievre:** In the federal jurisdiction, which is the exclusive focus of my questioning, how much will it cost the average Canadian household to pay this carbon tax?

**Mr. John Moffet:** Again, that depends on how the jurisdiction uses the revenues, which the federal government is obliged, under this law, to return to the jurisdiction of origin.

**Hon. Pierre Poilievre:** But you also have, under this act, the ability to return it directly to the people—in other words, to administer the full carbon tax and expend its proceeds. I know you keep trying to shift it back to other jurisdictions in order to externalize responsibility for the question, but I am exclusively asking about the federal government. This bill empowers the federal government to collect a \$50-a-tonne carbon tax.

You do know what that would cost the average Canadian household. Can you please tell Canadians now?

**Mr. John Moffet:** I'm going to repeat the answer that it depends on how the revenues are used. The government has not decided how it will use the revenues, and it is authorized to return the revenues entirely to the government—

**Hon. Pierre Poilievre:** That's not true. Your officials briefed us, after the bill was first introduced, that the federal government would have the ability to either direct the funds back to the population, going around the provincial governments, or give it to the province. Now you've said something completely different. You've said that the money will have to go to the provincial government.

**Mr. John Moffet:** Sorry, that's not what I said.

**Hon. Pierre Poilievre:** Well, actually, it is what you said.

**Mr. John Moffet:** I was the one who briefed you. I just made the statement that the bill requires the money to go back to the jurisdiction of origin—not to the government; to the jurisdiction of origin.

**Hon. Pierre Poilievre:** Okay, good—

**Mr. John Moffet:** The bill authorizes the government to return the money to the government or in other ways.

**Hon. Pierre Poilievre:** I think there's an easy way to get to the answer, then. How much would the federal government have to return to the average Canadian household to compensate for the full cost of the carbon tax?

**Mr. John Moffet:** I don't have that number available. I can tell you, though, that—

**Hon. Pierre Poilievre:** Has it been calculated?

**Mr. John Moffet:** No.

**Hon. Pierre Poilievre:** You're telling me that Finance Canada has not calculated what the original cost of the tax at \$50 a tonne would be?

**Mr. John Moffet:** I can't speak for Finance Canada.

**Hon. Pierre Poilievre:** Has any department done that?

**The Chair:** Does anybody else want to take a stab at this?

Mr. Poilievre, we can switch the questioning around and come back to you. Whenever you want to take a break, we'll go to somebody else and we'll come back to you.

Anybody else can answer this question, from Finance or Environment.

Mr. Coulombe.

• (0900)

**Mr. Gervais Coulombe (Director, Sales Tax Division, Tax Policy Branch, Department of Finance):** In respect of the study that was released yesterday, I would like to say that the expertise in environmental matters and modelling capacity with respect to GHG emissions rests with Environment and Climate Change Canada. As a result, they have been the lead department in developing the economic impact estimates related to the current carbon pricing system.

Of course, that said, given the nature of this policy, Finance officials have been working closely with colleagues at Environment and Climate Change Canada. We invite the committee to have a look at the study that was released yesterday. We hope it will help you in reviewing the proposed—

**Hon. Pierre Poilievre:** According to that study, how much would the carbon tax, when fully implemented, cost the average Canadian household?

**Mr. John Moffet:** The study does not provide that calculation.

**Hon. Pierre Poilievre:** I have here documents from Finance Canada. It's a memo that says, "The memo focuses on the potential impact of a carbon price on households' consumption expenditures across the income distribution. Key findings are"—and the rest is blacked out. I know that Finance Canada is now under investigation by the Information Commissioner because of its failure to release this information, which obviously does need to be released in the public interest. The table that is blacked out would show how much families of various income levels would pay depending on the price of carbon.

You have this information. Can someone up there tell us what the cost of the carbon tax will be to the average Canadian family?

**Mr. John Moffet:** I can tell you that memo you are reading was not about this bill.

**Hon. Pierre Poilievre:** Of course not, but it apparently was about the cost of a carbon tax to families. This memo, furthermore, has another table wherein scenarios are laid out that are based on different levels of cost per tonne of carbon, so you have calculated how much a carbon tax would cost a given family, depending on the price of the carbon tax.

Can you please tell us what that cost is for an average family?

**Mr. John Moffet:** I'm afraid we can't tell you that at this time.

**Hon. Pierre Poilievre:** Why?

**Mr. John Moffet:** I'm afraid I'm going to repeat myself, and I'll elaborate a bit. The impacts depend, first of all, on the direct impact of the carbon charge on commodities that the household purchases, such as gasoline.

Second, the impact also depends on the cost of goods that are produced by large industries that will not be subject to a carbon charge, but will be subject to the output-based pricing system that will relieve those industries of a significant portion of the carbon charge on their emissions. It will charge them on the margin of their emissions. While we have laid out the authorities for that system in the bill and have published a number of papers proposing an overall approach to that system, we're in the middle of consultations to develop the actual standards that will be the heart of the output-based pricing system. They will actually determine the impact on the price of commodities and goods made by those industries. We don't know the details of that yet.

Third, again, the impact depends very significantly on the way that revenues are returned. We know that in other jurisdictions, in jurisdictions that have pricing, in some cases household costs are completely covered. Alberta estimates a direct impact on households ranging from about \$280 to \$500, and they've committed to returning all of those direct costs to about 60% of households in Alberta, so it's tailored to low-income versus high-income—

• (0905)

**Hon. Pierre Poilievre:** Again, I'm asking about the federal price. We are here today to discuss Bill C-74, which is federal legislation to impose a federal carbon tax in provinces that don't have their own.

You claim that the impact will depend on how the revenues are used. We as parliamentarians cannot judge whether average Canadian families are made whole by any expenditure of those revenues unless we know the original cost those households must pay.

It's a simple question. Have any departmental officials calculated how much Canadian families of various income levels will pay as a result of the original carbon tax, if imposed at a federal level, as this bill prescribes? Yes or no?

**The Chair:** I don't think Mr. Moffet is in a position to give a yes or no answer, Mr. Poilievre.

**Hon. Pierre Poilievre:** I appreciate your coming to assist him, but these are the officials—

**The Chair:** I'm not coming to assist—

**Hon. Pierre Poilievre:** —ho are supposed to answer these technical questions. This is one of the most basic questions that any officials would be asked whenever they introduce a tax measure. The government has its budget book, which is able to calculate out every other tax measure it introduces for the purposes of public relations, but when they're increasing taxes, we can't get any answers. These officials at this table would know if this modelling has been done.

I'm asking any one of them, has either of your departments calculated how much this carbon tax would cost Canadian families? Has anybody calculated that?

**Mr. John Moffet:** We've done a range of basic modelling and analysis.

**Hon. Pierre Poilievre:** Good. Can you tell us then, for a median income family, how much would they pay typically on the original tax?

**Mr. John Moffet:** I don't have that information.

**Hon. Pierre Poilievre:** Will you commit now to providing the committee with that information before we pass this bill?

**Mr. John Moffet:** I can't make that commitment.

**Hon. Pierre Poilievre:** Why is that?

**Mr. John Moffet:** The government's position, based on the analysis we've provided them, is that the impact on households cannot be determined at this time.

**Hon. Pierre Poilievre:** You just said you did modelling. So you have the modelling, you have the numbers, but you're just keeping it secret. Thank you. That's all we need to know.

**Mr. John Moffet:** That's actually not what I said.

**The Chair:** Just for the committee's information, when we're dealing with officials, we're not under... I know some people are getting antsy about the amount of time spent with one member, but members have the right to question officials on the budget implementation act until all questions are exhausted.

Mr. McLeod, then Ms. O'Connell, and then Ms. Lambropoulos.

**Mr. Michael McLeod (Northwest Territories, Lib.):** Thank you.

Thank you to the people who have joined us here to talk about the budget.

I'm from the Northwest Territories. The issue of carbon pricing created a lot of discussion. The Government of Northwest Territories has put together its plans and is ready to move forward. There are some things that we still needed to work out, including how it will impact our formal financing agreement, in particular, own-source revenues and clawbacks. I think we're just about there.

We still have some concern though. Given that the Northwest Territories is very remote, along with the other two territories, Yukon and Nunavut, we get all our supplies from other jurisdictions. For us, it's mostly Alberta. Yukon gets a lot from B.C., and for Nunavut, it's from Ontario and Quebec.

Any project, any kind of activity, requires us to get products from other jurisdictions. There is already carbon pricing in other jurisdictions: B.C., Alberta, Ontario, and Quebec. We are already paying for carbon pollution. That's included in some of the products we pick up.

Is there a mechanism to prevent us from paying twice, once when we get the product in the north and if it's resold? Is there a way to protect us from that? We could get a double impact from this if we don't do it properly.

● (0910)

**Mr. John Moffet:** In the pan-Canadian framework, the federal government committed to work with the three territories to estimate the impacts of carbon pricing on the territories. During the course of 2017, our two departments worked closely with each of the territories and produced three studies, which we shared with each territory. Those studies did indeed confirm that there will be direct and indirect impacts of carbon pricing and that some of those indirect impacts will, as you mentioned, arise from the fact that goods purchased from other jurisdictions will already have a carbon price embedded in them.

Your question is about whether there is a risk of double payment of carbon pricing. It's our view that there is no risk of that. I'll explain why.

I don't mean to demean the significance of the question, but let's take a simple example, a loaf of bread that's produced in a province and then shipped north. The fuel used to produce that bread would have been subject to a carbon price, so there will be a carbon price embedded in the cost of that loaf of bread. But there won't be an additional carbon price imposed on that loaf of bread in the Northwest Territories. The only way that the cost of that bread might increase as a result of carbon pricing is because of additional transportation costs associated with moving it to the store, and there may be a price on that fuel. It would, however, be a price on the particular fuel used to move the bread, not an additional price on the production of the loaf of bread itself.

That's one example. Another is that fuel is subject to the carbon levy in the federal backstop system, and the system that the Northwest Territories government is developing is also a levy system.

The levy is imposed on a fuel supplier or a distributor. If the fuel supplier is south of 60, then the fuel supplier would be paying the carbon price south of 60 only. If the fuel supplier is located in the Northwest Territories, then the fuel supplier will be paying it there. There aren't, though, two fuel suppliers paying two separate carbon taxes.

**Mr. Michael McLeod:** I'm glad you brought up fuel, because that's where I was going to go with my next question. There is carbon pricing on fuels, and fuels are used in all modes of transportation. In the Northwest Territories and Nunavut and Yukon, we use a lot of air travel to go between small communities.

I just travelled to the communities that I represent on the coast on the Beaufort Sea, and I listened to parents who were actually in tears because they couldn't go to visit their family in the next community or in the regional centre, because it's so expensive. Now we're going to include a carbon price that will make it a little more challenging to do that.

If they flew out of the country, however, they wouldn't have that problem, because we don't have carbon pricing on interjurisdictional sea or air transportation. Why is that? Why is there a difference? How did we come to that conclusion?

● (0915)

**Mr. John Moffet:** It may be useful to think of three types of air transportation: international transportation from one country to

another; what we've called "interjurisdictional", say from Yukon to Northwest Territories or Ontario to Quebec, so from one jurisdiction in Canada to another; and intrajurisdictional.

International aviation is going to be subject to carbon pricing starting in 2020 under a regime that Canada has signed onto, which was negotiated under IATA, the international aviation association. All of the large countries and major airlines in the world have agreed to be part of this system. It was essential that it be an international system because, as you can imagine, it would be difficult for one jurisdiction alone to put a price on international aviation fuels—airlines would simply fill up their planes somewhere else.

Canada was part of the negotiation of the system. This will apply in 2020, so for that reason neither any provincial nor the federal backstop system applies to international transportation.

Interjurisdictional transportation—from province to province or territory to territory—is not covered at the moment. What Ministers McKenna and Morneau have said is that they intend to address this gap. They have not decided how to address it.

The reason it's a gap is that no jurisdiction currently addresses interprovincial or interterritorial flights. This may be the one area in which the federal backstop applies beyond just in provinces that don't have a pricing system. We may need the backstop to apply also in provinces that have a pricing system but that do not address interjurisdictional aviation.

This would be complicated in your jurisdictional discussion. The decision was to get this system up and running and then to start those discussions.

I was in Yellowknife last week talking with the deputy minister of finance and made a commitment to the territory's deputy of finance and environment that they would be involved in those discussions and that one option—making no commitment as to the outcome, because that will be politically decided—clearly could be to have a different system for interjurisdictional travel between provinces and interjurisdictional travel going to the territories. At the moment, none of those flights is priced.

Intrajurisdictional aviation fuel is priced under the backstop system. It's something that can be completely controlled by the backstop or by an individual province and, consistent with the government's policy that pricing should apply to a broad suite of activities, it is included in the backstop system.

The final point I'd make, though, is that we're also in extensive discussions with each of the three territories about offering the services of the Canada Revenue Agency to provide whatever rebate system each territory wants to implement in order to address, for example, impacts of increased aviation costs upon households in remote communities, if the territorial government so chooses.

**Mr. Michael McLeod:** In the north—and you've probably heard this—we're quite concerned about the impacts of climate change. It's creating a lot of havoc, especially on infrastructure and our roads. One of the roads that we've just refurbished was nice two years ago, but it is already heaving—I drive on it all the time. It's something that's going to continue to plague our airports, which have started to see heaving. It's going to be significant over the next while and it's going to continue.

This is a mechanism to try to control that. However, we know that the impact is also going to affect us. It's going to affect us more in our smaller communities. Yellowknife, our regional centre, will be affected; however, we figure that for communities to which air travel is required and which at the same time have lower income, it's going to be a challenge to make this work.

I think the Government of the Northwest Territories has done a good job in its planning. If there were, however, a requirement to make a change, is there flexibility in this whole process to make an adjustment two years from now that would help offset some of the hardships it may cause that we may not recognize today?

• (0920)

**Mr. John Moffet:** Under the pan-Canadian framework, the first ministers agreed to quite a few things, and I'll mention three. The first was to put in place carbon pricing throughout Canada. The second was to put in place a carbon price that goes to \$50 in 2022, and then to conduct a review of the impacts of carbon pricing before 2022, with the purpose of determining where carbon pricing goes. In addition, they also committed to an interim review in 2020, precisely the two-year period you're talking about.

There's a commitment to undertake a review, and that will be an interjurisdictional review that will involve all of the provinces and territories and the federal government. That will provide findings of the impacts to date and recommendations going forward. As parliamentarians, it's always within your authority to amend legislation. Similarly, many of the details of the federal carbon pricing system will be in regulations, and those can also be amended.

**The Chair:** Ms. O'Connell.

**Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.):** Thank you, Mr. Chair.

Thank you for being here.

I want to follow up Mr. Poilievre's questions. I didn't have a chance to read your study that was released yesterday, but I went through it quickly here. Mr. Poilievre talked about modelling. Maybe he hasn't had a chance to read it either, and we'll let it him get caught up, but appendix 1 speaks specifically to modelling. For some of the characteristics, it's not a secret that you can't provide the number; it's the fact that there are a variety of characteristics that need to be incorporated and looked at.

Let's talk about some of them that are in black and white, and not a secret. Again, that's not a catchy catchphrase or hashtag. Among other characteristics, it will include the following:

...provincial production and consumption patterns through a detailed input-output table and links provinces via bilateral trade. Each province and territory is explicitly represented as a region.

It later goes on to say:

The baseline for this macroeconomic analysis is Canada's 2017 GHG reference case that was reported in Canada's 7th National Communication and 3rd Biennial Report to the United Nations.... It includes the future impact of policies and measures taken by the federal, provincial and territorial governments as of November 1, 2017....

These are all important factors that I think would need to go into the modelling. In forecasting, it says:

key macroeconomic variables in the model such as GDP, the exchange rate, and inflation [rate] are [all] aligned to Finance Canada's projections.

It goes on to talk about things like gas consumption by each province and consumption of other goods. This is what makes it so difficult to put a specific number on it, because, obviously, it's going to vary dramatically in each region. Mr. McLeod just gave some examples of how the north may be impacted differently.

What are the dangers of using outdated memos, and memos unrelated to this bill? What is the danger of not actually waiting for provinces and territories to come forward with their plans, with the economics provided for in their regions that are specific to those people? What is the danger of using fearmongering and Conservative tactics, and putting some random number on it instead of waiting for provinces and territories to come back and work with the federal government?

I know that having partnerships with provinces and territories is a new concept, but what is the risk of using outdated economic information and modelling that is not relevant to regional differences in this country? Again, it's the ability for provinces and territories to design their own systems that will provide the best return of carbon pricing revenues back to the consumers who probably need it most. What is the basis for ensuring that all of these factors are taken into account, and why is this bill focused on modelling that respects regional diversity? Why was that so important to Environment Canada and Finance Canada?

• (0925)

**The Chair:** Who wants to take it? Mr. Moffet?

**Mr. John Moffet:** I can.

**Ms. Jennifer O'Connell:** You don't have to get to the partisan part that I included there, but in terms of the economics—

**The Chair:** I hope not.

**Ms. Jennifer O'Connell:** I have to level it a little.

**Mr. John Moffet:** When the government developed its commitment to pan-Canadian carbon pollution pricing in late 2016, three jurisdictions already had carbon pricing and Ontario had already announced its intention to join the Quebec-California cap-and-trade system, so we had the four provinces with the bulk of Canadian population already implementing or committed to carbon pricing.

The government decided not to impose a single carbon pricing system on Canada that would have required replacing the four existing systems, and instead decided to move in a stepwise fashion, where the first step was to articulate a commitment to ensure that there was a reasonably consistent approach to carbon pricing across Canada that respected two things: first, the existing systems, and second, the flexibility and jurisdiction of the remaining provinces and territories to develop their own systems, provided those systems aligned with a core set of criteria. In that way, the government's goal was to ensure that carbon pricing applied throughout Canada so that a price signal was sent to a broad range of activities, to ensure coherence and as much efficiency as possible, and to send a signal to other countries and businesses planning to invest in Canada that Canada was committed to carbon pricing.

The final element was a commitment to the system that is codified in this bill, which is a federal system that could be used in jurisdictions that choose not to develop a system that aligns. The government has elected to implement carbon pricing throughout Canada but in a way that allows jurisdictions both the flexibility to design their own system and, even if they choose the federal system or have it imposed on them, the flexibility to use the carbon pricing revenue as they see fit.

Given all of those policy choices, then, we come to the difficult question of what the precise impact will be on a household in a given jurisdiction. The simple answer is “It depends”, and it depends on a number of factors, some of which are articulated in that broad framework document that we published in late 2016, and some of which are articulated in the details of the backstop legislation, but some of which have not yet been decided and will not be decided until the end of this year. Ministers McKenna and Morneau have asked provincial and territorial premiers to submit information about their systems and their plans by September 1 of this year, so it won't be until then that we have all the details in place.

• (0930)

**Ms. Jennifer O'Connell:** Thank you, and that was part of my next point, the deadline or the ask for having those plans in place, because that's also in this document.

You started to talk about the example in Alberta and Mr. Poilievre cut you off a little bit before you'd finished, but could you talk about the example in Alberta or any jurisdiction that has already somewhat indicated what its plan might be and how they plan to return or use the revenues to offset any costs? Do you have any of those based on the jurisdictions' intentions so far, granted that I know they still have time to come up with these detailed plans?

**Mr. John Moffet:** The study that I mentioned has on pages 7 and 8 some examples of the ways that provinces with existing carbon pricing systems are investing some of their revenues. Each of those jurisdictions is pursuing what you might call a portfolio approach. They have not said that every cent will be dedicated to A or B; instead, they are generally using the revenue for a variety of things with the relative emphasis differing from province to province.

The major emphasis in British Columbia is on a revenue-neutral system, which means that the carbon pricing revenue is being used, in one way or another, to reduce various forms of taxation so that overall government revenues remain neutral. The example provided in the paper is that this year B.C. plans to invest its carbon pricing revenues in reducing the medical service plan premium by about half, and also cutting the personal income tax and small business corporate income tax.

Other provinces have done some fiscal balancing, but have also chosen to take the money and return it directly to households. For example, Alberta has a rebate system in place that is tailored to household income. As I said, the Government of Alberta estimates that about 60% of households will be made whole through this rebate. Ontario and Quebec are providing some rebates, but also make the money available to households and businesses to invest in energy efficiency schemes. They're also pooling the money in large technology funds that will be made available to businesses and innovators to develop and deploy clean technology.

There are a variety of ways in which revenues are being used, and indeed, that's consistent with the advice of most academic and policy reviews of carbon pricing in Canada and internationally. In Canada, most prominently, the Ecofiscal Commission published a fairly significant study of carbon pricing revenues and essentially recommended that revenues be used in a variety of ways to address whatever the most salient policy goals of the jurisdiction are.

**Ms. Jennifer O'Connell:** Thank you.

**The Chair:** Just to give everyone an idea of where we are on the list, next will be Mr. Dusseault, Ms. Lambropoulos, Mr. Fergus, and then Mr. Poilievre. That's what I have on my list at the moment.

Mr. Dusseault.

[*Translation*]

**Mr. Pierre-Luc Dusseault:** My question is about the obligation to report to Parliament. In reference to the tabling of the report, clause 270 mentions “starting in the year in which the second anniversary of the day on which this section comes into force”. My question is very simple.

Generally, the year following the coming into force of the legislation is chosen. Why did you choose the second anniversary? Is there a reason behind it that you could share with the committee?

• (0935)

**Mr. John Moffet:** Thank you. That's a very good question.

[*English*]

I'll reply in English.

We did think about this carefully. The reason for deciding on the second anniversary is that the results of the system will not be clear for about a year and a half. The reason is that the system has two components, with a charge and the output-based pricing system. The charge will be paid on a regular basis, once it's imposed and comes into force. By contrast, the output-based pricing system is paid on an annual basis at the end of each year. The carbon pricing backstop system will come into force on January 1, 2019, about half a year from now, and then for the first year, the obligation of a large facility subject to that system will be to track emissions. At the end of that year—so in the winter of 2020—it will then report its emissions, calculate how much it owes, and then pay what it owes, if it owes anything. The payment it makes will not be made until the middle of 2020, so in other words, we will not know precisely who has paid what under the system until the middle of 2020. It's for that reason that we decided that the first report should be a complete report and talk about where the system was applied, in what jurisdictions it applied, how much charge was paid, by whom, and how much of the output-based pricing system charges were paid and by whom. Again, we won't have all of that information in place because all of those activities will not have occurred until about the middle of 2020. That's why we picked two years, but then the obligation is an annual report thereafter.

[*Translation*]

**Mr. Pierre-Luc Dusseault:** Thank you.



My next question is a little more complex. It concerns the circumstances under which an exemption certificate may be issued, meaning that some taxpayers will be exempt. The best example, I believe, is farmers.

Could any of you explain to us how the exemption system will work?

In short, I would like more details on the mechanics of the exemption system.

**Mr. Pierre Mercille (Director General (Legislation), Sales Tax Division, Tax Policy Branch, Department of Finance):** In part 1 of the bill, there are situations where some people will have the right to use exemption certificates. If you want to talk mainly about farmers, I can talk about farmers.

As a general rule, as I explained in my presentation the other day, the people who pay the fuel levy are distributors or wholesalers who sell these products. It isn't the buyer who pays, generally. So, if it is in compliance, the exemption certificate allows the fuel supplier not to pay the fuel levy. Since the fuel supplier doesn't pay this fee, the value isn't included in the price charged by the fuel vendor.

As far as farmers are concerned, they will have to provide a certificate of exemption. It isn't something that the Canada Revenue Agency gives to the farmer, but rather the farmer who produces the certificate in the manner specified by the agency.

There are a number of conditions that must be indicated in the exemption certificate, which is a document in which a person certifies certain facts. If these facts are certified, the seller may not pay the fuel levy. There are four things that farmers have to certify in the document. First, they must certify that they are farmers. Then they have to certify that the fuel is delivered to a place that is a farm. The third condition is that the fuel will be used exclusively in the operation of eligible farming machinery. The fourth condition is that all, or almost all, of the fuel will be used for eligible farming activities. If these four conditions are met, the distributor does not have to pay the fuel levy itself, and the farmer does not have to pay that cost either.

The concepts of farmer, eligible farming machinery and eligible farming activity are all defined in the bill. So, a farmer is defined as a person who operates a farming business in a reasonable expectation of profit. Eligible farming machinery generally consists of property that is primarily used for agricultural purposes: it must be a farm truck, a tractor, an industrial machine, a portable engine, or a vehicle that is not licensed to be operated on a public road. However, this eligible machinery doesn't include an automobile, as defined in the Income Tax Act, nor property used for providing heating or cooling to a building or similar structure.

• (0940)

**Mr. Pierre-Luc Dusseault:** It's very interesting. It seems rather complex, however, for the average farmer who has to understand all this.

My question is who will apply these rules? You mentioned all the rules and the four conditions, but who will apply them? I imagine it's the Canada Revenue Agency. How will you successfully adapt to the new regulations and enforce them? Will you directly check on farms that the fuel is used for the operation of eligible farming machinery?

How will it work, once the legislation is passed, to apply it on the spot?

**Mr. Pierre Mercille:** As with other legislation administered by the Canada Revenue Agency, this system includes a self-assessment principle, a self-declaration principle.

There is an advantage for farmers that I didn't mention. For others who are eligible to use the exemption certificate, the standard is to register with the Canada Revenue Agency and file returns that are generally monthly. In the case of farmers, we don't require them to meet this condition. They don't have to register for the purposes of this act.

In any case, the Canada Revenue Agency conducts audits of farmers from time to time. So, we are only going to ask them for information. We will administer this in a similar way to other statutes administered by the Canada Revenue Agency. If a farmer ever produced exemption certificates and then resold the fuel to someone else, there are rules in place to ensure that there is no diversion of fuel. This helps to respect the general structure of the legislation.

**Mr. Pierre-Luc Dusseault:** I'm going to look at another aspect of the operation. It will be much easier for a supplier who provides fuel exclusively to farmers to distinguish between the fuel that goes to farmers and the fuel that goes to other customers. In a perfect case, a supplier supplies fuel only to farmers. It is therefore exempt on all fuel. In the case where there are several customers who are not all farmers, how can the supplier make the difference exempted from the fees depending on the quantities of fuel? How will it work?

• (0945)

**Mr. Pierre Mercille:** The first criterion is whether or not an exemption certificate is presented to the distributor. If the distributor delivers fuel to a service station, the service station doesn't present an exemption certificate. Knowing this, the distributor will determine its selling price taking into account that the customer will have to pay the fee on the fuel that will be delivered to the service station. However, for a delivery of fuel to a farmer's farm, I presume that the farmer will call the distributor in advance and say that he will present a certificate of exemption. The price can be established this way.

[English]

**Mr. John Moffet:** Could I just add one point? Many provinces already have similar arrangements with their provincial sales taxes on fuels. Many farmers would already be familiar with the distinction and already have the arrangements put in place not to pay fuel tax on fuels. Indeed, in many jurisdictions those fuels are actually coloured so they can be easily distinguished.

I appreciate that there is some administrative complexity, but the point is that farmers are already used to that system, and we're trying to mirror as much as possible the existing arrangements that are in place.

**The Chair:** I don't know of any farms that don't have bulk storage on them. In our province, as you said, John, they mark the gasoline. They put a colouring in it, and therefore that would show up if it were, say, used in your passenger car. That's the way it works in some provinces, but I don't think there's an indication to mark the fuel, as I understand it, in this case.

Do you have any further questions, Pierre?

[Translation]

**Mr. Pierre-Luc Dusseault:** No, thank you.

[English]

**The Chair:** I have just one other one on this because I know that we'll get questions on this. I think, Mr. Mercille, you commented on trucks that don't have plates to operate on a public road.

What happens in the case of a potato farmer or a grain farmer who is hauling their harvested crop from their field to their farm bins in the yard? Are farmers allowed to use the exemption on those vehicles or not? I can understand it if it's hauling from a farm to the elevator system for shipment, but what happens about trucks on the road that are really just going from field to farm?

**Mr. Pierre Mercille:** If the transportation is between a location at a farm to another location at a farm—it doesn't have to be the same farm—the exemption certificate could be used to get the levy out on that fuel.

**The Chair:** With trucks in many cases it depends on the province. Some provinces have farm plates on their trucks and some don't, but they are used for the operation of the farm. I think you said it doesn't have plates to operate on a public road.

**Mr. Pierre Mercille:** Well, I said both. It could be a farm truck or it could be a tractor or vehicle that is not licensed to operate on public roads.

**The Chair:** Okay.

I have one other question before I go to the other side. Are fishermen entitled to an exemption as well in terms of their fishing boats, do you know?

● (0950)

**Mr. Pierre Mercille:** They are not.

**The Chair:** They are not. So the exemption is there for farmers and not for fishermen.

**Mr. Pierre Mercille:** That's what the legislation provides.

**The Chair:** Okay.

Ms. Lambropoulos.

**Ms. Emmanuella Lambropoulos (Saint-Laurent, Lib.):** Thank you.

Thank you for being here to take questions. I don't usually sit on this committee, so forgive me if my questions are a little too general.

First of all, we know that putting a price on carbon is obviously going to cost Canadians. Still, it's something that I think a lot of Canadians are ready for. They realize that we need to act fast to help the environment; that's true for at least the residents in my riding of Saint-Laurent.

Can someone please tell me what the environmental risks of not implementing a price on carbon would be?

**Mr. John Moffet:** The goal of the Canadian government in pricing carbon, I would say, is threefold. First of all, the government believes that Canada should do its part along with the rest of the world in trying to mitigate greenhouse gas emissions. Canada, on its own, cannot prevent climate change from occurring. On the other hand, if we fail to act, then it's the government's view that we have no basis to argue that other countries should act. Therefore, the government's position is that we need to act.

Then the question is how we should act. In the pan-Canadian framework, the government, along with first ministers, developed a strategy that puts carbon pricing as a foundational element, but not the exclusive element. The reason for its being a foundational element is that carbon pricing is the most economically efficient way to reduce emissions. This is because it provides maximum flexibility as to how emission reductions occur, as compared to a regulation, for example, that prescribes action or a financial subsidy, which targets certain activities. That's the basic reason for choosing carbon pricing.

On the other hand, the pan-Canadian framework also includes complementary regulatory measures and spending. Complementary regulatory measures are needed to address issues that can't be addressed by pricing. In some cases pricing simply won't work. In other cases pricing might not work fast enough. Therefore, we want to ensure, for example, that energy generation utilities no longer invest in coal-fired electricity generation facilities. Those are multi-million dollar facilities that have a lifetime of decades. In order to ensure that no new facilities are built, and then to ensure that they not continue to operate for another 20 or 30 years, or to avoid having them built and then mothballed and basically putting all that money in stranded capital, the government has elected to also regulate certain activities. Then, in addition, to address some well-known market failures or challenges in stimulating innovation in technology, the government has also chosen to provide financial support for clean technology.

That's the overall approach. Then, what's the risk of not including carbon pricing in that suite of activities? The simple answer is that if we take the first point, that we need to do our part, that we need to reach our Paris goal, the alternative would be to choose some other suite of measures that doesn't include carbon pricing to achieve that goal. Those measures by definition, in the absence of carbon pricing, would cost the Canadian economy more because they would be less efficient.

● (0955)

**Ms. Emmanuella Lambropoulos:** Thank you very much.

Obviously we need to act fast, and this is the most efficient way of doing so. I don't see our having another choice. I know that some provinces have a plan, and others don't. Regardless of whether or not they have a plan, and whether it's going to be implemented by the federal government if they don't have a plan, how do we plan to work with the provinces to ensure that the revenues go to the right place and towards a greener economy?

**Mr. John Moffet:** We are working very closely with the provinces, but our efforts at the moment are focused primarily on helping those jurisdictions decide whether to implement their own pricing system, and if so, how to design the system in a way that makes the best sense for their jurisdiction, or whether it makes sense for them to agree to have the federal backstop applied. That has been a major focus of both of our departments over the past year.

The question of how provinces and territories would spend revenue that flows from their own systems or the federal system is a different question. There are two things I would point to.

First of all, in the lead-up to the pan-Canadian framework, the provinces, territories, and federal government put in place four working groups to explore the range of activities that should be undertaken to address climate change in Canada. One of those was a working group on carbon pricing, which Mr. Coulombe and I had the pleasure of working on. That working group issued a consensus report that included a number of principles, and those principles included some general directions around the way in which carbon pricing revenues ought to be deployed. Consideration should be given—albeit not exclusively—to disadvantaged households, for example, and to people in remote communities, etc., but also to supporting clean technologies. There is, then, a set of principles that jurisdictions have generally agreed to.

On the other hand, the federal government made it clear that it is not imposing any conditions on the way in which jurisdictions use revenue from their own systems. Ontario has a pricing system. The federal government has nothing to say, in terms of climate change, around the way that money is spent by the Ontario government.

Similarly, Minister McKenna has made it clear that if a jurisdiction asks the federal government to impose the backstop, that money will go directly back to the government, and there will be no conditions on the way that money is spent. Of course, we can have discussions about—

**The Chair:** Let me just interrupt you. You mean it will go back to the provincial government.

**Mr. John Moffet:** I'm sorry. Yes, it goes to the government of that jurisdiction, provincial or territorial, with no strings attached, if you will.

As Mr. Poilievre pointed out, there's an added provision in the bill that, while it requires the government to return the money to the jurisdiction, authorizes the federal government to decide how to return the money. There is thus a possibility that in some cases in which the federal government imposes the backstop, the federal government may decide to return the money in some way other than directly to the government of that jurisdiction.

The policy decision about the way in which that money would be returned has not yet been articulated and, indeed, I believe that a prerequisite would be to designate by regulation—is that right?—the persons to whom that money is returned. That will be a matter, then, for regulations, which again would be a matter for public discussion before they're finalized.

• (1000)

**Ms. Emmanuella Lambropoulos:** Thank you.

Last but not least, I'd like to know whether any measures are being taken to protect consumers and businesses. Obviously we have to put this price on carbon, as you said, but are there any protections being put in place?

**Mr. John Moffet:** At the moment, there are three things I would point to.

One—and I apologize for repeating myself—the provinces will have discretion. They will be able to spend the money, the direct revenue. The existing jurisdictions are already putting in place various measures that are, at least in some cases, intended directly to address the increased costs associated with carbon pricing, whether that takes the form of a rebate or financial support to invest in energy efficiency, which will have the long-term impact of reducing your exposure to carbon pricing because you're using less carbon. So there are various measures being undertaken.

Second, in the pan-Canadian framework there is a significant suite or collection of spending programs, some of which are expressly designed to enable households and small businesses to make low-cost investments in such things as energy efficiency. In the case of remote communities, there is significant funding being made available to enable those communities to transition from their 100% reliance on diesel for the purpose of electricity generation to renewable forms of energy for the bulk of their energy needs. Again, that will have the impact of reducing their exposure to carbon pricing.

Then, in the backstop system that's codified in the legislation before you today, the output-based pricing system is expressly designed to minimize any adverse competitiveness impacts. It does that, as I said earlier, by pricing on the margin instead of pricing on every tonne of emissions. A company will have a standard, and the standard will be in terms of emissions intensity. At the end of the year, it will report how much it produced and how much it emitted. Then it can calculate easily what its annual limit was. If it emitted 10 tonnes more than its limit, it will owe a price on 10 tonnes versus all of its emissions. If it emitted 10 tonnes less than its limit, we will owe it 10 credits that it can then sell to Mr. Mercille's company, because he's far less efficient than I am.

**Voices:** Oh, oh!

**Mr. John Moffet:** In that way, I face an incentive to reduce my emissions continuously. Even if I go below my limit, I face an incentive to continue to reduce them because I'm then generating something of value that I can sell. The idea there is that then we're reducing the total exposure to the price, which will minimize the impact on their competitiveness.

**Ms. Emmanuella Lambropoulos:** Thank you.

**The Chair:** Mr. Fergus, then back over to this side.

[*Translation*]

**Mr. Greg Fergus (Hull—Aylmer, Lib.):** Thank you very much, Mr. Chair.

I would also like to thank the witnesses. The last time they were here, votes interrupted the discussions. I know it wasn't easy for them.

My question is for Mr. Mercille and Mr. Moffet, as well as all the witnesses. It concerns the memorandum that my opposition colleague quoted excerpts from. I think it is of interest to Canadians as well.

Has this memorandum been produced in conjunction with the bill we are looking at or with the document released yesterday by Environment and Climate Change Canada?

• (1005)

[English]

**The Chair:** Mr. Coulombe

[Translation]

**Mr. Gervais Coulombe:** Thank you for your question, Mr. Fergus.

Based on our knowledge of our access to information services, this note was prepared during the transition period. You know, Canadians need to know that when there is an election, the federal public service prepares a series of analyses and studies on various current issues. Of course, given the content of the various electoral platforms, climate change and carbon pricing was one of those issues that was examined, studied by various departments in Ottawa, including the Department of Finance. As a result, these notes that are prepared for the public service and future decision-makers do not reflect the policy decisions and actions that are subsequently adopted by the government. It is only transitional material.

With respect to the review that has been requested and is under way, the Department of Finance will be working with the Office of the Information Commissioner, and we will be involved in every step of this review. I am not in a position to tell you more about it. It is a process that will follow its course.

**Mr. Greg Fergus:** Thank you very much. Your answer was very informative.

I think Canadians who are listening to us or reading the testimony of this committee will understand that these transition notes are prepared on the fly to prepare for the arrival of a new government that has no knowledge of policy initiatives or decisions. These policies are, frankly, the result of the good work of our public service.

This is a study that was really done quickly, just to make the transition. Am I wrong or does it reflect the situation?

**Mr. Gervais Coulombe:** I prefer not to give details about the study. I would like to stick to what I said earlier, that transition studies are prepared to brief senior officials. These senior officials are then responsible for briefing the new government in place.

**Mr. Greg Fergus:** Thank you for your answer.

I have a second question to better understand the commitment of the government and what has been developed in the bill. With the new carbon pricing system, it isn't the Canadian government that will cash the amounts. We made a commitment that is reflected in the bill, to put that back to the provincial and territorial authorities. Could you confirm that, please?

**Mr. Gervais Coulombe:** The direct revenues that will be generated by the carbon pricing instruments in this bill, if it were

to apply—because there is always the possibility that all the provinces and territories will decide to introduce their own system, in good standing with the federal standard—will be handed over to the authorities who created them.

If you look at the budget documents that were released on February 27, you will notice that there is no revenue associated with this carbon pricing measure. I'll take the opportunity to say that it isn't included in the additional information on tax measures, since it isn't a tax. The main measure is to reduce emissions. It's along the lines of environmental regulatory measures.

• (1010)

**Mr. Greg Fergus:** I know that Mr. Moffet has already answered this question, but I will come back to it to reinforce the message.

The bill seeks to ensure that the economic market will determine the best way to deal with carbon pricing. The philosophical basis of the bill is to allow, once again, private sector stakeholders to determine the best ways to reduce their environmental impacts. They will be incentivized to reduce their spending and increase their efficiency in the use of carbon.

[English]

**Mr. John Moffet:** I would broadly agree with your description of the philosophical kind of conceptual underpinning of carbon pricing, with one caveat, and that is that the carbon pricing applies beyond the private sector. You're right that it will apply to households. As householders, you and I will make decisions based on whether we will invest in energy efficiency, change our windows, choose what kind of car we will buy, or decide to take transit.

Similarly, the public sector is a large consumer of fuel and goods. The public sector will also face incentives provided by carbon pricing—hospitals, government buildings, etc. The idea is to apply the price as broadly as possible across the economy, but again, as you said, then the idea is to provide complete flexibility as to how to respond to that price signal.

**Mr. Greg Fergus:** Mr. Chair, very briefly I'd like to thank Mr. Moffet for bringing about that clarification.

You're absolutely right, and it's just a way of making sure that people have full information to make the right choices, as opposed to having it always externalized.

**The Chair:** Thank you.

On my list I have Mr. Kmiec and Mr. Albas. If there is anybody else, put up your hand.

I do have one question before I go to Mr. Kmiec. In clause 192, which is the regulation section for the output-based pricing system, it states that they will be able to make regulations on user fees. Do those user fees fall under the Service Fees Act, or are they separate and apart from that?

Can anybody answer that? It's clause 192. It's the regulations under the output-based pricing system. There are a number of areas where you can make regulations, and one of them is everything from the system for tracking, compliance, and accounts in the system, to user fees, to retention of records, etc. Do you know what they fall under?

While I'm at it, I guess if anybody is here from Treasury Board, I note that in our various sections, in every budget implementation act, we end up dealing with a number of departments. User fees, now under the Service Fees Act, go up by inflation every year, which to me is a budgetary matter, even though it's not in the budget. I do believe that this committee should hear from somebody from the Treasury Board on user fees annually, whether those are in the budget implementation act or not, because fees are going up. If anybody is here from Finance on that topic, we'll be asking you to come forward on user fees at some point before we've finished with this budget implementation act.

Has anybody got an answer on user fees?

• (1015)

**Mr. Philippe Giguère (Manager, Legislative Policy, Department of the Environment):** Yes, Mr. Chair. Thank you.

With respect to clause 192 and the provision for user fees, there's no exemption to the Service Fees Act for this one. The intent here is mostly to use it... For instance, it could be used with respect to the tracking system that we will set up under part 2 in the regulations. There's no specific exemption from the Service Fees Act, or I'm not sure if there's a new name now for this.

**The Chair:** My question is this. Do those user fees fall under the Service Fees Act? Some do and some don't. I know Health Canada has got fees that don't fall under that—

**Mr. Philippe Giguère:** These ones will fall under—

**The Chair:**—and if they do fall under that act, they automatically go up by inflation every year, which is something that I personally have a problem with, but that's just me.

**Mr. Tom Kmiec (Calgary Shepard, CPC):** It's not just you.

**The Chair:** Anyway, the answer is that they do.

**Mr. Philippe Giguère:** Those that will be set under that specific authority do.

**The Chair:** Okay.

Mr. Kmiec.

**Mr. Tom Kmiec:** Thank you, Mr. Chair.

As far as I can tell, the department has modelled the price of a carbon tax but has not modelled the cost to Canadians or families or by income quintiles—in fact, any of it. The chair said earlier that the documentation released yesterday by the government—it's about 17 pages long—on the potential reduction in GHG emissions and some of the pricing taxation on carbon....

Can we have an agreement, then, that Mr. Moffet will also produce to this committee the modelling he spoke of, Mr. Chair—all the documents and figures?

I'm asking, Mr. Chair, procedurally.

**The Chair:** Well, no, I don't know whether that information is available yet. I would turn the question to Mr. Moffet. What I do know is that I now have the earlier document, which was available but which I hadn't seen yesterday. That is why I asked that it be made available to the committee.

Mr. Moffet will have to tell us what is available. Whatever is available, we'll ask for.

**Mr. Tom Kmiec:** Specifically, I want the modelling that the member for Carleton, Mr. Poilievre, spoke of.

You referred to some basic modelling that was done by the Department of Finance. Will you make it available to this committee?

**Mr. John Moffet:** I cannot make that commitment at this time. In providing advice to ministers about options for carbon pricing and to inform the final design of a system, we of course did various kinds of legal, economic, and other analysis. That analysis was all prepared for the purpose of enabling government decisions, and at this time the information is not available publicly.

What we've tried to do is summarize—

**Mr. Tom Kmiec:** Pardon me, Mr. Moffet. I understand the point you're making, but we're now considering the budget implementation act—more than 500 pages of highly technical documentation, an omnibus bill that includes 200 pages on how the carbon tax will be imposed on Canadians and on provinces that don't want to have one.

I'm going to move a notice of motion that the committee ask that the Department of Finance produce the modelling that Mr. Moffet spoke of, including all figures attached to that documentation.

If that's okay, we can work on the wording separately; this is just a notice that I'm going to be asking for it.

**The Chair:** That's fine.

**Mr. Tom Kmiec:** I'd like to go to proposed section 188, on the revenue side. In an earlier exchange, Mr. Moffet said, and others have said too, that this carbon tax would be collected and then remitted to the provinces.

Proposed subsection 188(1) says:

(b) persons that are specified in the regulations or that meet criteria set out in the regulations

Who are these “persons”? It sounds to me as though the federal government can remit directly to individuals the carbon tax rebates or whatever it is that is being rebated. It refers specifically to section 174 or 178, which deal with overpayment. How does this work? Is this carbon tax actually going to be remitted to provinces, or can it go directly to persons? The latter is the way I read this.

• (1020)

**Mr. John Moffet:** The obligation on the federal government is to return the money to the jurisdiction from which it came. The government has two options: it can return the money directly to the government or jurisdiction, or it can return the money to persons who are designated. “Persons” is a legal term of art that covers individuals and legal entities, such as corporations.

If the government chose to use the later approach to return the money to designated persons, it would first have to develop regulations defining who those persons are. In other words, there would not—

**Mr. Tom Kmiec:** Pardon me for interrupting you. What would happen if the province decided not to have a carbon tax or cancelled a carbon tax during a fiscal year?

**Mr. John Moffet:** The way this bill is structured, it has two main parts: a charge and the output-based pricing system. Either part can be imposed on its own or they can be imposed together. The way that occurs is by adding the name of a jurisdiction to a schedule in the act by means of an order in council.

In your scenario where province X has a system that aligns with the national benchmark and then decides, no, it's scrapping that and eliminates it overnight, the federal government would then have the authority to issue an order in council. That would take some time, but could be done fairly quickly. It would then identify that jurisdiction on the schedule, and either one or both parts of the backstop would then apply in that jurisdiction.

**Mr. Tom Kmiec:** What is the backstop? Do you mean that the carbon tax would continue?

**Mr. John Moffet:** The federal system would then apply in place of the provincial system.

**Mr. Tom Kmiec:** That's a funny way of doing a partnership. I've heard other Liberal members talk about "our partnership with provinces". So the people of Ontario and the people of Alberta, back home in my province, say "No more carbon tax", and they elect a government that wants to get rid of it. The federal government, through this piece of legislation, will impose it on people who have decided, through the provincial electoral system, to say no to it. Is that correct?

**Mr. John Moffet:** I'll answer the last part of the question; I think that the first part was a statement. The federal government will have the authority under this bill to impose this carbon pricing system on any jurisdiction in Canada that does not have a pricing system that aligns with the national benchmark.

**Mr. Tom Kmiec:** They will essentially impose it when a provincial government refuses to do so, or because of an election, where there's a change of government that has a different policy direction. The federal government, specifically the cabinet, can continue to impose it upon the people of a province regardless of local opinion. They have a mechanism.

**Mr. John Moffet:** Yes. The federal government will have that authority.

**Mr. Tom Kmiec:** Okay.

Now I have a question about clause 17, which is much earlier in the bill. It deals specifically with individuals on "Charge not payable". Subparagraph 17(2)(a)(iv) says:

a prescribed person, a person of a prescribed class or a person meeting prescribed conditions, if prescribed circumstances exist;

That terminology or "prescribed circumstances" appears 108 times in this piece of legislation, this omnibus bill, which means that there are 108 times where the federal cabinet will decide the details. This bill is already over 500 pages long. It's probably the longest BIA I have read.

I don't even know what that section refers to. It says "prescribed person, a person of a prescribed class". It all talks about who will not pay the carbon tax. How many times does this appear in the

legislation, and what is it meant to encompass? Why are these exemptions being provided for and the mechanisms that will be used to exempt people from paying the carbon tax?

My impression was that the carbon tax was supposed to be broad based in order to achieve the supposed environmental goals that the Government of Canada has outlined, but here you're giving yourselves a whole bunch of latitude to exempt an entire group of people, or class of people, in prescribed circumstances. What does that mean, and who is this section supposed to encompass?

• (1025)

**Mr. Pierre Mercille:** The way this legislation was designed, there's a first part, the fuel charge part, and a second part, the output-based pricing system. The output-based pricing system is mainly an element that enables the making of regulations to implement the measures.

In terms of the fuel charge, the government believes the rules that are spelled out here are enough to make the fuel charge operate, but this is a new scheme. Essentially, regulatory powers were created, and the goal is essentially to use those powers to address situations that would occur, that would be raised by stakeholders or by the CRA in respect of the application of the charge, that would not be in accordance with the policy intent.

We have no experience with the particular mechanism that is before you, but in a similar pricing mechanism, there's a risk of double pricing and there's a risk of absence of pricing. The regulatory power is there so that the government can quickly react to particular situations in order to potentially close a loophole or—

**Mr. Tom Kmiec:** Mr. Mercille, pardon me for interrupting you.

You just said double taxation or double pricing.

**Mr. Pierre Mercille:** In situations, which we don't think exist right now...

This is a piece of legislation. Yes, it's 200 pages, but it's going to apply to an infinitely complex situation in Canada in which fuel is distributed. There may be a situation in which there's a risk that there will be double pricing. I'm not saying there is: there may be a risk—

**Mr. Tom Kmiec:** Mr. Mercille, I can confirm that it actually will be happening. There was an exchange between Mr. Fergus and Mr. Coulombe in French about *la tarification du carbone*.

The GST—HST in some provinces—is going to be applied on the carbon tax. That's already double taxation. So I can tell you, it's already going to happen. It's \$100-plus million in revenue that it is going to generate the federal government. This is already going to happen.

Could that exemption be used here?

The reason I bring it up is that you're going to exempt people from being taxed unfairly. Well, there's an entire electoral system designed around people having their say at the provincial level to refuse to have the carbon tax. We have an election coming up in Ontario in June; there's an election coming up in Alberta in 2019. There's a very strong chance that those provincial governments will change their minds.

**The Chair:** I think we can let Mr. Mercille answer the question first, and then we'll get back to that point.

Mr. Mercille.

**Mr. Pierre Mercille:** We're not here to comment on potential political situations that may happen in Canada. We're to describe the instrument that is presented before you.

You just mentioned the GST and HST. This provision is not there to solve what you perceive to be an issue. It's a policy decision that the GST or HST applies on the final selling price of property or services. It includes the gas tax, and it will include carbon pricing because it will be built into the price of the fuel that's going to be sold.

The double imposition I'm talking about would be a double imposition under this particular piece of legislation where it is not the intention.

**The Chair:** Mr. Kmiec.

Mr. Albas.

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** Thank you, Mr. Chair, and thank you to our witnesses for coming and sharing what you can—although I'm getting the distinct impression that there are many things you cannot. I hope you all appreciate in the back of your minds that the role of parliamentarians is to hold the government to account. That's something we will certainly do the next time we have the minister here.

With respect to the bill that's before us, first of all, did the Minister of Justice provide either department with a view on the constitutionality of the imposition of federally imposed financial legislation in what are really areas under provincial jurisdiction? Provinces have largely used the energy lever, so to speak. My question would be, is there anything that says that this particular bill is constitutional and will survive any challenge in any court process?

• (1030)

**Mr. Pierre Mercille:** I'm going to answer this, but I'm pretty sure you're not going to like the answer.

Essentially, the government believes that the plan is legally sound. I'm not at liberty and no one on this panel is at liberty to discuss whether there was legal advice provided. If it had been provided, it would be the subject of solicitor-client privilege.

**Mr. Dan Albas:** Again, then, it's about “belief”: you said “the government believes”. There are many things that my spouse would probably say I believe that she disagrees with. That doesn't stop our having a good conversation, but it really does for others. The premier of Saskatchewan says that his government believes it's not constitutional.

I will simply leave that line of questioning. However, the fact that we are not receiving any kind of modelling yet, or that this is subject to solicitor-client privilege does not lend itself to a belief, in my opinion, that it's 100% sound.

Switching gears, though, I would like to go to the modelling.

Mr. Moffet, I believe you've probably authored several different replies to the Standing Joint Committee on the Scrutiny of

Regulations on behalf of Environment Canada. Is that something you've done a number of times over the years?

**Mr. John Moffet:** Yes. I was the designated review officer for over 10 years for Environment and Climate Change Canada.

**Mr. Dan Albas:** I feel that I already know you just by your correspondence.

**Voices:** Oh, oh!

**Mr. Dan Albas:** Many letters would have come in, and I think today is consistent with that.

In regard to it, you mentioned earlier that the government is proceeding with pricing. Again, this is a Pigovian tax. Basically, by raising the price, it will alter the way that people respond in a market—again, this is just basic microeconomics. Since you're really only dealing with Northwest Territories, Nunavut, and Saskatchewan, because I believe that in most other jurisdictions, this won't apply, why has there not been any economic modelling given for that province and those territories?

**Mr. John Moffet:** There are a couple of points. First of all, the system is designed to be as durable and flexible as possible. It's designed so that it can be applied anywhere in Canada. Also, as your colleague aptly pointed out, it's conceivable that there will be changes in provincial policies in the short term, and therefore that the backstop might be needed in more than those limited jurisdictions you talked about.

Second, we have actually done significant detailed analysis in conjunction with each of the three territories, and we've shared those studies with the three territories. We did that for the territories, so the analysis is the property of the territorial governments. One of those governments has publicly shared that analysis. The others, I can't speak for. They're using it, but I can't speak for their intention. We have done detailed work with those jurisdictions.

**Mr. Dan Albas:** And with provinces?

**Mr. John Moffet:** We've also been working closely with each of the other provinces, including modelling of various types of pricing options that they are each considering—P.E.I., New Brunswick, Newfoundland and Labrador, Nova Scotia, Manitoba. We actually have a delegation of modellers and policy analysts going to the Province of Saskatchewan in a couple of weeks to do exactly the same kind of analysis for that government. We're providing our analytical capacity to those governments to enable them to make decisions. Then, again, when they make a decision, we will all be able to know what the policy will look like and then be able to do a final modelling and disclose those results to Canadians.

**Mr. Dan Albas:** So you'll only disclose this after it has been imposed. Is that the intention of the government?

**Mr. John Moffet:** My point was that after a province makes a decision....

For example, the Northwest Territories is looking at its own system. They have announced an intention, but they haven't fully disclosed all the details, understandably, because they have not all been worked out yet. When they do, then it will be possible to do full modelling of the likely impact of that system. We are deferring to that jurisdiction to allow them to make up their own mind and to announce their own system.

•(1035)

**Mr. Dan Albas:** Which territory has already disclosed this publicly?

**Mr. John Moffet:** I believe that Yukon has publicly disclosed their analysis. The Northwest Territories undertook an extensive engagement process with its residents to talk about the likely impact of pricing and different design options, both for pricing and for revenue use and, as I say, is now very close to finalizing a design. I can't speak for what their plans are, or when they plan to disclose them. Of course, that's consistent with the normal development of any policy.

**Mr. Dan Albas:** What you're saying is that the federal government has chosen not to allow parliamentarians to be able to have the information. Elected leaders from those jurisdictions will share that information government-to-government, but it won't be to disclosed to parliamentarians until after this legislation is passed—if a province or territory does not cooperate with the regime that's being imposed.

**Mr. John Moffet:** Sorry. That's actually not what I intended to say.

**Mr. Dan Albas:** Could you just answer whether that is the case?

**Mr. John Moffet:** No, that's not the case. What I'm trying to explain is that we are giving time to provinces and territories to make their own decisions. It's not for the federal government to tell Canadians what the impact of a provincial decision might or might not be until that province has actually made up its own mind. Once it does, then that information will be made public.

**Mr. Dan Albas:** It will be a little bit late for my purposes, in terms of where my interests are. I've been very frank that I don't believe the Northwest Territories or the people of Nunavut should be imposed on in this way. I think we should be finding other ways.

To go to a different subject then, in regard to the provisions around the importation of fuel, I believe MP McLeod had mentioned earlier that certain territories receive their fuels from different sources. The Northwest Territories get theirs from Alberta. Obviously, that's not imported, but I believe he said that Nunavut, for example, will receive imported oil.

If it's purchased through, let's say, Quebec, would they then have to pay the cap and trade in Quebec, or since it's imported, would they then pay this federal backstop price?

**Mr. Pierre Mercille:** I can't really talk about the system in Quebec because I'm not familiar with it. What I can say is that under this regime, the fuel distributors are the people who are going to pay the charge. The fuel will be paid, if it's delivered in a listed province—a listed province being a jurisdiction that will be listed in part 1 of schedule 1. There are rules for bringing in fuel to a listed province from another place in Canada, and in that case, the fuel charge under this system would apply, but there are also rules for relieving when the fuel is removed from a listed province to go somewhere else.

**Mr. Dan Albas:** Is there equivalency, though? This is the question. If certain things are exempt under the cap-and-trade system of Quebec that are not exempted under this federal backstop regime you mentioned here, then you have the same product being used by different people who will have different costs when it comes to the imposition of this. Is there equivalency? Shouldn't the federal

government be...? Again, if you're granting equivalency to provinces like Quebec and Ontario for cap and trade, shouldn't there be a bit more familiarity to ensure that there's not a different price on carbon depending on where you're from?

•(1040)

**Mr. John Moffet:** Other environmental legislation has a formal concept of equivalency. Under the Canadian Environmental Protection Act, the federal government has the authority to stand down a regulation that has been promulgated under the act when entering into an agreement with another jurisdiction—whether a provincial, territorial, or an aboriginal government—that has in place rules that are equivalent to those under CEPA.

The government has chosen not to pursue the model of formal equivalency under this system because, as I explained earlier, when the federal government moved to impose pricing across Canada, we already had a situation in which we had four provinces with pricing in place and three very different systems, each of which had a broadly similar scope of application—each applied to the same set of emissions—but used different mechanisms and, as a result, caused there to be different carbon prices in the marketplace.

British Columbia has an explicit charge; Alberta has an explicit levy on fuel use—we know exactly what the carbon price is. For covered facilities in Ontario and Quebec there's no legally established carbon price. Instead there's a cap, which creates market pressure, which is then manifested in a market price that may or may not be exactly the same as what exists in British Columbia or Alberta.

We are not in a position to say that the carbon price throughout Canada must be  $x$  dollars, because it's not  $x$  dollars in those four jurisdictions, and it wouldn't make any sense to require it to be that exact price everywhere else. Instead, the federal government has provided the remaining nine jurisdictions with exactly the same flexibility to choose their own system. If they do a cap-and-trade system, it needs to align with certain characteristics to make it essentially as rigorous and robust as the Ontario and Quebec system. If they rely on an express charge, then we need to see that price at \$10 to \$50 per tonne.

That's a long-winded answer, but the bottom line is that there's no way, in a situation in which we already have different systems, to insist on one single price across Canada.

**Mr. Dan Albas:** If someone from Nunavut were to drive down and purchase the gas directly and import it themselves right from the St. Lawrence, they would perhaps then pay a higher charge than someone in Quebec, because it's treated differently under cap and trade. The former premier of British Columbia, Christy Clark, expressed real concerns around equivalency, and the fact that this does not address that raises concerns, for me.

**The Chair:** Are there any other questioners? It would be great if there weren't, but we can take one last question. That way we wouldn't have to call the officials back again.

To those who are here for divisions 1, 2, 3, and 4, I offer my apologies. I know you came to get on today, but we're going to be out of time.



**Mr. Tom Kmiec:** Mr. Chair?

**The Chair:** We'll get to you in one second, Tom.

We'll have to schedule you for another time. My apologies.

Mr. Kmiec.

**Mr. Tom Kmiec:** I just want to make sure that we will still be on part 5 at the next meeting, because I have questions about the whole proposed section 50, about rebates. My questions are too long to get into in a 15-minute exchange now, so I wanted to save them for another meeting.

**The Chair:** Will we need officials from both Finance and Environment?

**Mr. Tom Kmiec:** If they both want to be here, it would be wonderful.

**The Chair:** Okay, we'll have to schedule it, if that's the case. If it's going to take 15 minutes, we have no choice.

Mr. Moffet, did you want to say something?

**Mr. John Moffet:** I was just going to say that we are at your disposal if you have further questions.

**The Chair:** I know we have witnesses this afternoon and tomorrow, and we'll have to figure out when to reschedule you folks, and for the 20-plus divisions that we have yet to go through. I think we're probably going to be meeting a little overtime.

With that, I thank the officials for coming, both those at the table and those we didn't get to.

The meeting is adjourned.

---





Published under the authority of the Speaker of  
the House of Commons

---

### SPEAKER'S PERMISSION

---

The proceedings of the House of Commons and its Committees are hereby made available to provide greater public access. The parliamentary privilege of the House of Commons to control the publication and broadcast of the proceedings of the House of Commons and its Committees is nonetheless reserved. All copyrights therein are also reserved.

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

---

Also available on the House of Commons website at the following address: <http://www.ourcommons.ca>

Publié en conformité de l'autorité  
du Président de la Chambre des communes

---

### PERMISSION DU PRÉSIDENT

---

Les délibérations de la Chambre des communes et de ses comités sont mises à la disposition du public pour mieux le renseigner. La Chambre conserve néanmoins son privilège parlementaire de contrôler la publication et la diffusion des délibérations et elle possède tous les droits d'auteur sur celles-ci.

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

---

Aussi disponible sur le site Web de la Chambre des communes à l'adresse suivante : <http://www.noscommunes.ca>