



Policy regarding  
voluntary participation in

# THE OUTPUT-BASED PRICING SYSTEM



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## Purpose

Under section 172 of the Greenhouse Gas Pollution Pricing Act (GGPPA) a person responsible for a facility may request that the facility be designated as a covered facility under the GGPPA. Each application will be assessed on its merits and on a case-by-case basis. This policy outlines the considerations the Minister will take into account when making such a designation. It also outlines the procedures that the person responsible for such facilities is to follow when requesting such a designation. Finally, the policy also lays out the considerations that the Minister would take into account when cancelling a designation made under section 172 of the GGPPA.

This policy does not apply to facilities that meet the criteria in section 8 of the Output-Based Pricing System Regulations (OBPSR). Persons responsible for these facilities are required under the GGPPA to apply to register these facilities as covered facilities.

The aim of this policy is to minimize competitiveness and carbon leakage risks from the exposure of a sector to the federal fuel charge (under Part 1 of the GGPPA), while retaining a price signal on carbon pollution that creates an incentive to reduce greenhouse gas emissions. Part 1 of this policy applies to facilities that carry out an activity for which an output-based standard (OBS) has been set out in column 1 of Schedule 1 of the OBPSR. Part 2 enables additional facilities to apply to be included in the Output-Based Pricing System (OBPS).

## Definitions

For the purposes of this policy, facility has the same meaning as under the OBPSR.

Covered activity means an industrial activity listed in column 1 of Schedule 1 to the OBPSR.

Eligible activity means an activity identified in section 2 of Appendix B of this policy.

The date of first production means either:

- a) the date on which the facility first produces a product; or
- b) the date on which the facility starts producing a product resulting from carrying out a covered activity or an eligible activity after a major retrofit has occurred; or
- c) the date on which a facility resumes producing a product resulting from carrying out a covered activity or an eligible activity after an expansion has occurred.

A new facility is a facility whose date of first production is in the previous three years but no earlier than 2017. In determining the date of first production for a new facility all industrial activities the facility is currently or was previously engaged in should be taken into account.

A major retrofit has occurred if the facility ceases to carry out a covered or eligible activity as its primary activity and instead carries out a different covered or eligible activity as its primary activity.

An expansion has occurred when a facility has increased its production from a covered or eligible activity by 25% or more.

## **Designation as a covered facility**

### **Part 1: Facilities undertaking covered activities**

#### **Section A: Facilities that have reported emissions over 10kt**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. The facility is used to carry out any of the covered activities listed in column 1 of Schedule 1 to the OBPSR , or in the case of Saskatchewan the activity listed in item 5 or 38, column 1 of Schedule 1 to the OBPSR;
3. A report was made, in accordance with a Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, in respect of that facility indicating that that facility emitted a quantity of greenhouse gases equal to 10 kilotonnes of carbon dioxide equivalent (kt of CO<sub>2</sub>e) or more, as one or more facilities as defined in such a notice, during the 2017 calendar year or after; and
4. A complete application for registration in the Output-Based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must be made by a person responsible for that facility<sup>1</sup>.

#### **Section B: New, retrofitted or expanded facilities that are projected to emit over 10kt**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. The facility is used to carry out any of the covered activities listed in column 1 of Schedule 1 to the OBPSR, or in the case of Saskatchewan the activity listed in in item 5 or 38, column 1 of Schedule 1 to the OBPSR;
3. The facility was not required to report greenhouse gas emissions under a previous Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, and:
  - a) is a new facility,
  - b) has undergone a major retrofit in the past three years, or
  - c) has undergone an expansion in the past three years;
4. The facility submits as part of its application for registration in the Output-Based Pricing System estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrate the facility is projected to emit 10 kt of CO<sub>2</sub>e or more in any of the 3 calendar years following the date of first production. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions; and
5. A complete application for registration in the Output-Based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must be made by a person responsible for that facility.

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<sup>1</sup> For the purpose of section 172 of the Act, the person responsible for the facility is the person who owns or is otherwise responsible for the facility, including the person who has the charge, management or control of or is the true decision maker with respect to the operations of the facility.

## **Part 2: Facilities in sectors at risk of carbon leakage from carbon pollution pricing**

### **Section A: Facilities that have reported emissions over 10kt**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA, except Saskatchewan;
2. A report was made, in accordance with a Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, in respect of that facility indicating that that facility emitted a quantity of greenhouse gases equal to 10 kt of CO<sub>2</sub>e or more, as one or more facilities as defined in such a notice, during the 2017 calendar year or after;
3. The facility is in a sector listed in Appendix A, or successfully applies for its sector to be added to Appendix A by demonstrating that the sector faces significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing;
4. The facility does not carry out a covered activity as its primary activity; and
5. A complete application for registration in the Output-Based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must include the information set out in Appendix B. The application must be made by a person responsible for that facility.

### **Section B: New, retrofitted or expanded facilities that are projected to emit over 10kt**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA, except Saskatchewan;
2. The facility was not required to report greenhouse gas emissions under a previous Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, and:
  - a) is a new facility,
  - b) has undergone a major retrofit in the past three years, or
  - c) has undergone an expansion in the past three years;
3. The facility submits as part of its application for registration in the Output-Based Pricing System estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrate the facility is projected to emit 10 kt of CO<sub>2</sub>e or more in any of the 3 calendar years following the date of first production. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions;
4. The facility is in a sector listed in Appendix A, or successfully applies for its sector to be added to Appendix A by demonstrating that the sector faces significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing;
5. The facility does not carry out a covered activity as its primary activity; and
6. A complete application for registration in the Output-Based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must include the information set out in Appendix B. The application must be made by a person responsible for that facility.

## **Section C: Exceptions**

A facility that does not meet the criteria under Part 2, Section B, #4, may be considered under Part 2 in the case where it meets all other criteria in that section and:

1. The facility submits as part of its application for registration in the Output-Based Pricing System estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrate the facility is projected to emit 50 kt of CO<sub>2</sub>e or more in any of the 3 calendar years following the date of first production. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions; and
2. The facility is in a sector that is classified under the North American Industry Classification System (NAICS) 31, 32 or 33.

### **Timing**

A person responsible for a facility may request that the facility be designated as a covered facility at any time.

### **Notification of decision**

A person responsible for a facility that makes an application under this policy will receive a notification indicating the decision regarding their request to have their facility designated as a covered facility.

Persons responsible for facilities that are designated as covered facilities and registered in the OBPS will be notified of the industrial activities that will be subject to the OBPS.

### **Cancellation of designation**

A person responsible for a facility that has been designated as a covered facility under section 172 (1) of the GGPPA may apply to have the designation of the facility cancelled. An application to cancel a designation must be made in the form and manner prescribed by the Minister.

If a cancellation request is granted, it will generally take effect at the end of the compliance period in which the application is made.

This policy may be amended from time to time.

## Appendix A: Sectors at risk of carbon leakage from carbon pollution pricing

Table 1 includes sectors that have facilities that are located in jurisdictions where the GGPPA applies and that:

- have or may have greenhouse gas (GHG) emissions of 10 kt of CO<sub>2</sub>e or more per year,
- carry out as their primary activity, an activity for which an Output-Based Standard (OBS) has not yet been specified under the Output-Based Pricing System Regulations (OBPSR); and
- may face significant competitiveness and carbon leakage risks from the application of carbon pollution pricing.

Sectors at significant competitiveness and carbon leakage risk from carbon pollution pricing include sectors that are in a medium or higher Emissions Intensive and Trade Exposed (EITE) risk category based on the following criteria:

Sectors with EITE risk of medium or higher are sectors where:

- the emissions intensity equals or exceeds 1% and trade exposure equals or exceeds 10%, or
- the emissions intensity equals or exceeds 3% and a trade exposure of any level is achieved.

Where,

Emissions Intensity = Direct Carbon Cost / Gross Value Added (GVA)

Trade Exposure = (Imports + Exports) / (Imports + Sales).

Direct carbon costs are the costs the entire industrial sector in Canada would face if exposed to the federal fuel charge under Part 1 of the GGPPA at \$50 per tonne of CO<sub>2</sub>e in 2022. GVA is a measure of the contribution of an industry to the economy. Imports (or exports) by industry are equal to the sum of imports (or exports) of products produced by that industry.

These sectors also include sectors that are more than 80% trade exposed, where Trade Exposure = (Imports + Exports) / (Imports + Sales).

Sectors may be added to Table 1 in the following circumstances:

- a) The applicant demonstrates that using credible data, the sector or subsector is in a medium EITE risk category or higher, or are more than 80% trade exposed using the above criteria.
- b) The applicant demonstrates that when other metrics or factors are considered the sector is at significant risk of carbon leakage due to carbon pollution pricing. These other factors include:
  - i. Competitors are included under the OBPS or competitors would be eligible if they were operating in a backstop jurisdiction - i.e., the facility produces products that are already or could be captured under the OBPS;
  - ii. Carbon costs are large relative to revenue – i.e., facilities that make up 10% or more of the sector's revenue face carbon costs that exceed 3% of revenue;
  - iii. The sector is unable to pass on carbon costs to consumers as indicated by the sector having a trade exposure level that exceeds 60%;
  - iv. The estimated indirect carbon costs for the sector result in the sector being in the medium or high EITE risk category when both direct and indirect costs are included in determining the carbon costs of the sector.

Where factor a) or b) (i) is met, this will be considered a sufficient condition for the sector to be added to Table 1 of the policy. For sectors that meet factors (b) (ii) – (iv), sectors are to meet at least two out of the three factors to qualify.

**Table 1: Sectors where the application of carbon pollution pricing may create a significant competitiveness and carbon leakage risk**

<b>NAICS</b>	<b>Name</b>
2123	Non-metallic mineral mining and quarrying
3112, 3118, 3119	Miscellaneous food manufacturing
3113	Sugar and confectionery product manufacturing
31142	Fruit and vegetable canning, pickling and drying
311611	Animal (except poultry) slaughtering
321	Wood product manufacturing
32222	Paper bag and coated and treated paper manufacturing
324	Petroleum and coal product manufacturing
3251, 3252, 3259	Other chemical manufacturing
3254	Pharmaceutical and medicine manufacturing
32614	Polystyrene foam product manufacturing
32621	Tire manufacturing
3271, 3272, 3274, 3279	Non-metallic mineral product manufacturing (except cement and concrete products)
331	Primary metal manufacturing
33211	Forging and stamping
33633	Motor vehicle steering and suspension components (except spring) manufacturing
33635	Motor vehicle transmission and power train parts manufacturing
33639	Other motor vehicle parts manufacturing

Environment and Climate Change Canada may update the list in the table from time to time.



## **Appendix B – Supplementary information to support applications from EITE sectors**

The person responsible for a facility that is making an application for designation and registration in accordance with Part 2 of the Policy Regarding Voluntary Participation in the Output-Based Pricing System must provide the following information as part of their application.

### **1. Reference years**

The reference years for a facility should be:

- a) 2017 and 2018 for a facility for which the responsible person requests the designation as a covered facility in 2019.
- b) The three most recent full years of commercial operation for a facility for which the responsible person requests the designation as a covered facility in 2020 or later.

For a new, retrofitted or expanded facility the information under section 3 of Appendix B can be estimated for the three first years from the date of first production. These estimates should be based on engineering estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering.

The facility must indicate the reference years that will be used and in the case of engineering estimates provide details on the methods used to perform the calculations.

### **2. Eligible activities**

The eligible activities are to be determined as follows:

- a) For a facility that produces only one product that is not the result of carrying out a covered activity, the eligible activity is the production of this product.
- b) For all other facilities, the products to be included in the eligible activities should represent the majority of production at the facility, measured either in terms of its contribution to revenue from the facility or facility emissions. The production of multiple products should be aggregated in cases where the production processes are integrated, the products identified can be measured using the same units, and the proportion of the production of these products does not vary significantly from one year to the next.

The facility must report all eligible activities at the facility, and provide information to support the determination of the eligible activities.

### **3. Information on emissions, production and transfers of thermal energy**

The following information on emissions, production and transfers of thermal energy<sup>2</sup>.

- a) The total GHG emissions for the facility;
- b) The total GHG emissions associated with all covered activities undertaken at the facility other than electricity generation from fossil fuels;
- c) The total GHG emissions associated with the generation of fossil fuel electricity at the facility;
- d) The total GHG emissions associated with each eligible activity undertaken at the facility;

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<sup>2</sup> Thermal energy means useful thermal energy in the form of steam or hot water that is intended to be used for an industrial purpose.

- e) The total purchases of thermal energy that are purchased from covered facilities. The ratio of heat from the combustion of fossil fuels of the seller, where available;
- f) The total sales of thermal energy to all covered facilities whose main activity is a covered or eligible activity. The ratio of heat from the combustion of fossil fuels for the facility; and
- g) The production associated with each eligible activity.

This information must be provided for each of the reference years identified under section 1. The person responsible for the facility should use the same method to quantify the information for each of the reference years and detail this method in the application.

#### 4. Quantification of emissions, production and transfers of thermal energy

The information under section 3a) for the reference years should be provided based on the information submitted to the Greenhouse Gas Reporting Program, where available, with adjustments made for consistency with the OBPSR. Specifically, for a facility for which a report was made, in accordance with a Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, in respect of that facility as one or more facilities as defined in such a notice, during the reference years, the emissions for that facility should be provided as reported under the notice for each of the reference years. These facility totals should be adjusted for consistency with the OBPSR. For example, emissions of CH<sub>4</sub> and N<sub>2</sub>O from the combustion of biomass should be excluded from facility totals.

To the extent possible, the information under b), c), d), e), f) and g) should be quantified in accordance with the OBPSR. In all other cases, this information should be quantified in accordance with industry best practices.

The information under 3 g) should include the quantity of each type of product produced by carrying out the eligible activity for each of the reference years in mass, volume or number of units, according to the units of measure currently used by the industrial sector in question.

All information should be provided using the International System of Units (SI units).

#### 5. Third Party Review

An independent third party reviewer must review the information detailed in this appendix. The third party reviewer must:

- a) be a professional engineer certified in accordance with the law of a province or territory that governs the practice of professional engineering, or a chartered professional accountant certified in accordance with the law of a province or territory that governs the practice of professional accounting;
- b) have technical knowledge and expertise of greenhouse gas emission quantification methodologies for the sector, and audit practices; and
- c) not be the person responsible for the facility or a director, officer or employee of the person responsible for the facility or of an affiliate, or an employee or agent of the Government.

The third party reviewer must attest that the information in the application is complete, the information submitted under section 3 of Appendix B is free of material errors and omissions and the application has

been prepared in a manner that is consistent with the policy on voluntary participation. Appropriate materiality thresholds can be found in subsection 49(2) of the OBPSR.